

From compliance to strategy: How companies turn sustainability into action

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Abstract: The development of the EU Sustainability Reporting Directive (CSRD) and the European Commission's Omnibus initiative, launched in February, are impacting companies' practical sustainability efforts. As existing regulations and laws affect companies' sustainable development, the VALIOT project companies have outlined and considered concrete measures regarding the impacts of sustainable development in practical business. The companies have utilized VRIO, PESTEL, and 8-field analyses to determine the concrete implications of sustainability factors. This article discusses influential and relevant sustainability factors for case companies to meet their stakeholders' current and future demands.

Sustainability, PESTEL, SME, VRIO, 8-Field analysis

1 Introduction

The transition to a green economy guided by climate policy is significant across sectors and in the structural changes within them. These changes will affect companies' strategies and investment decisions, among other things, fostering innovation and improving productivity and competitiveness. Environmentally friendly practices can simultaneously enhance environmental sustainability and economic efficiency. [1]

The Corporate Sustainability Reporting Directive (CSRD) was published in the Official Journal of the EU in December 2022 and entered into force in January 2023. [2] It was supposed to usher in a new era of corporate openness and contribute to the sustainability transition of the EU economy by providing financial incentives for companies to achieve Europe's sustainability goals. The Corporate Sustainability Reporting Directive was considered necessary for data availability, comparability, and reliability. At the same time, companies' reporting costs would decrease in the long term, and, among other things, overlapping standards would be reduced [3].

An organization's intangible resources include, for example, the expertise, reputation, and motivation of employees, and financial resources include assets such as equity, risk tolerance, and liquidity. When evaluating these resources, consider where the organization is more successful than its competitors, what actions or strategies have enabled this success, and which resources support these actions or strategies. A company's competitive advantage can result from strategic investments in education and professional development, creating a skilled workforce. This valuable, untraceable resource is efficiently integrated into the company's operations. Strategic business studies for SMEs should consider the need to use practical tools for assessing a company's environmental, economic, and social responsibility.

In this study presentation, we are focusing on the meaning of combining CSR and business strategy in SMEs. SMEs play an essential role in achieving the Sustainable Development Goals, e.g., given their number and their significance in employment. Studies combine theory and practice to enhance and promote responsible business practices, develop competence to promote EU and global sustainability goals, and maintain companies' competitiveness. In connection with Omnibus I, SMEs are considering, among other things, postponing sustainability reporting measures, which may weaken competitiveness and stakeholder cooperation, or lead to a decrease in customer numbers. SMEs use, for example, VRIO, PESTEL, and 8-SWOT analyses to responsibly develop strategic business, focusing on the company's business environment and related information retrieval. Based on current-state analyses, the business was considered and analyzed from sustainability and responsibility perspectives, using, among other things, the Blue Sea strategy [4]. A broader picture of business responsibility, its development, and its practical interests was formed through articles, podcasts, and video assignments produced in the Green Responsibility project [5]. The study is based on the VALIOT project of Laurea University of Applied Sciences and LAB University of Applied Sciences in Finland. The project is funded by the European Union (ESR+ funding) and runs for 2 years (2023-2025).

2 Theoretical background

2.1 Sustainability and ESG in the sense of strategy

Considering sustainability and ESG factors to support companies' operations should be incorporated into the national strategy to ensure a clear fiscal planning framework and sustainability reporting. [6] The key question is how SMEs achieve long-term sustainability goals and meet society's requirements through implementing sustainable development. Those companies that can commit to and integrate ESG (environmental, social, and governance) into their operations can achieve long-term sustainable

growth. Focusing on core business issues creates a picture of what works and what does not in the company. These key decisions guide management and experts in business value chains. [7] SMEs' commitment to sustainable development is essential, as they are responsible for around 70% of global pollution. [8] Many SMEs and their staff have not understood how the seventeen components of these SDGs [9] relate to practical business and how they are reflected in the development and assurance of competitiveness. Sustainable development and social responsibility are not as deeply rooted in mainstream business education as environmental issues. [10]. Social responsibility should be considered from several perspectives when looking at business comprehensively, because human dignity and equality for all are basic norms. [11].

Organizational sustainability refers to forming business strategies and practices that promote sustainable development. [12] and high-performance and sustainability practices as part of business strategies [13] and operational strategy [14]. Calza et al. [15] highlight the importance of customer experience and sustainability in corporate value creation, while Kishita et al. [16] emphasize sustainability as a core value from a stakeholder ESG perspective, and McColl-Kennedy et al. [17] recall the importance of customer experience in increasing competitiveness and customer satisfaction. Evans et al. [18] consider recognizing changes in business models as a fundamental approach to implementing innovations for sustainable development. The concept of sustainability performance underpins the analytical framework for sustainable innovation. Further, it is a process that integrates sustainability, ecological, economic, and social aspects from ideation to commercialization, increasing economic growth. [19]

Malesios et al. [20] discuss in their article "Do Sustainability Practices and Performance Affect SME Growth? What specific sustainability aspects affect the financial performance of an SME? From the point of view of statistical modeling, what is the most appropriate combination between the latter?" Companies pay attention to sustainability—for example, to achieve lower costs, recruit and retain environmentally conscious employees, build a positive image and reputation, increase sales among consumers who recognize green values, or position themselves as sustainability pioneers. [21]. A study by Nidumolun, Prahaladin, and Rangaswami [22] concluded that reductions in the costs of environmentally friendly companies were achieved through decreased production inputs. Organizations strive for sustainability for profitability, environmental policies, and stakeholder pressure [23]. In other words, the most important motivator for companies to achieve sustainability is competitive advantage and improved profitability [24].

Organizations must explore how to strategically and efficiently align sustainability and innovation to create value for themselves, stakeholders, and society. SME innovation ecosystems play an important role in creating sustainable innovations by enabling flexible responses to needs and challenges. [25] The company's management must ensure personnel's competence, for example, in the analysis tools used to interpret

responsibility requirements, so that the company's achievement of a competitive advantage is sufficient. [26]

2.2 Omnibus I

The sustainability reporting requirements introduced in recent years have been considered unreasonable, for example, in terms of the triangular taxonomy and the number of approximately one thousand data points [27], which is why the European Commission published the Sustainable Development Summary Package ("Omnibus I") [28] on 26 February 2025. It postpones the implementation and application of the Corporate Responsibility Directive, and, for example, the obligation to identify and manage a company's harmful environmental impacts would be limited to the company's direct business partners. The implementation of the CSRD Directive for second- and third-tier companies was postponed for 2 years. [29] In February 2025, the European Commission proposed its first sustainability roll-up package to simplify and dismantle the EU's current sustainability regime (reporting). [3] The Omnibus I package dealt with the regulations on sustainability reporting in the context of the Taxonomy Regulation, and the initiative, among other things, removed SMEs from the scope of reporting obligations and introduced an additional limit of 1,000 employees for all other large companies, which would reduce the number of obliged entities by 80%. The Commission's proposal postpones the mandatory CSRD for two years for the second and third waves. Reporting requirements for SMEs by contractual partners in value chains would be streamlined and harmonized, and information could be requested from smaller companies in the value chain based on EFRAG's VSME voluntary reporting standard. In addition, the ESRS reporting standards would be simplified and clarified. The measures to specify the regulations will continue in 2025. [29]

Omnibus I remains an initiative of the Commission, not a binding legislative amendment. Still, it will affect the overall atmosphere, and lighter guidelines will be adopted following consideration by the European Parliament and the Council. Omnibus I does not change the fact that promoting sustainable development is still relevant and can be one of the company's means of differentiation and a source of competitiveness. Discussions with SMEs in the VALIOT project have revealed that companies that have already invested in measures from a sustainable development and sustainability reporting perspective will continue to promote them to maintain competitiveness, among other things.

3 Methodology

The VRIO analysis emphasizes the need for continuous refinement to maintain competitiveness, and customer satisfaction, for example, plays a key role in assessing

resources. Regular measurement and consideration of customer experience and expectations increase perceived value and strengthen customer loyalty, as in Lean development, where, according to Byrne [30], continuous development promotes business operations. By managing strategically valuable, inimitable, and organized resources, companies can adapt to changing operating environments and remain competitive. The VRIO analysis provides a basis for understanding and utilizing internal strengths. This ensures long-term success in dynamic business environments. Barney [31] developed the VRIO analysis as a strategy tool to assess an organization's internal resources for potential competitive advantage. VRIO consists of value, rarity, replicability, and organization, which guide the evaluation of resources for sustainable competitive advantage. In other words, VRIO helps to assess internal resources and the potential for competitive advantage.

The PESTEL analysis was chosen as a tool in the VALIOT project to help SMEs better understand external sustainability factors and identify the significance of direct and indirect factors. To understand the business environment and facilitate planning, political, economic, social, technological, environmental, and legal aspects and their effects on the daily business operations of SMEs are concretized. [32.] This helps consider the big picture—for example, from the Double Maternity Assessment (DMA) perspective—identifying which factors are sufficient and essential for strategic business. With this, the most critical and future-relevant external responsibility goals of an SME emerge when considering strategic objectives to ensure competitiveness. At the same time, an analysis of the business's current state is conducted, taking into account external obligations and requirements and their impact on the business's strategy. [33].

An 8-field SWOT analysis was used to map the SME's internal responsibilities and analyze development targets. When examining the company's internal factors, the significance of personnel competence from the perspectives of relevant business factors, stakeholders, and the business environment's goals is further strengthened. The analysis focuses on the sustainability aspects most pertinent to practical business and their strategic impact on meeting stakeholder requirements. In addition, the significance of success factors and crises for responsible business is analyzed, and related foresight measures are developed to maintain and develop business and competitiveness.

The 8-field SWOT analysis emphasizes the SME's internal responsibilities and the importance of personnel's competence.

INTERNAL CURRENT SUSTAINABILITY LEVEL	1. Definition and analysis of sustainable strengths. <i>The focus is on assessing and defining responsibility, sustainability data, and related processes and competencies in the company.</i>	2. Definition and analysis of sustainable weaknesses. <i>The focus is on assessing and defining responsibility, sustainability data, and related processes and competencies in the company.</i>
	3. Definition of future sustainability opportunities. <i>Based on future scenarios, future opportunities related to competence in responsibility and sustainability data processes are defined.</i>	5. Naming sustainable success factors. <i>Future success factors are built by strengthening existing responsibility expertise, which can be utilized to turn opportunities into future successes.</i>
EXTERNAL FUTURE SUSTAINABILITY LEVEL	4. Anticipating and assessing future threats for sustainable actions in business. <i>In addition to future opportunities, it is important to anticipate and assess potential threats related to future visions of responsibility and sustainability information and the threats arising as a result.</i>	6. Strengthening weaknesses and responding to sustainable demands. <i>Weaknesses regarding responsibility and sustainability information must be strengthened and addressed with opportunities.</i>
	7. Responding to threats against sustainable business. <i>Efforts should be made to react to future threats using existing strengths of responsibility. Identify how existing strengths can be used to turn likely threats related to sustainability and sustainability data into opportunities and improve related activities.</i>	8. Definition of crises in sustainable business. <i>Weaknesses from the perspective of responsibility and sustainability data may become more acute, or threats may become a reality. What are these crisis situations in practice and how should we prepare for them?</i>

Figure 1.

Sustainability and sustainability data 8-field SWOT analysis framework, paraphrase [34].

The 8-field SWOT analysis proceeds numerically from 1 to 4. From point 5 onwards, measures essential to internal and external factors are systematically considered, utilizing internal strengths and addressing identified weaknesses. After reviewing all eight fields, the contents of fields 6 and 7 will be combined into development measures to be implemented, after which preventive measures will be taken in the event of potential crises. [34]

4 Results

The results of the corporate responsibility and responsible business strategy studies aimed at SMEs were an increase in the personnel's responsibility competence, a deeper understanding, and the perception of corporate responsibility and sustainable development, and measures as part of practical business, such as the modeling and implementation of processes from the perspective of responsibility. Using the VRIO, PESTEL, and 8-field SWOT analyses, it was possible to develop an overall picture of the company's sustainable development and responsibility framework within its operating environment. Attention was paid to sustainable economy and investments, as well as to the economic, social, and environmental factors to be considered in decision-making. In addition, sustainability reporting and other regulations affecting companies' operations, reporting, responsibility, and sustainability factors were considered. The participants identified key development targets and concrete measures to develop the company's responsible business. Based on the analyses, the companies can use the development plans and analyses in practical business after the project has

ended, e.g., in investments, updating CSR in business strategy, personnel competence, mapping and drawing processes, and the CSR aspect.

In the VALIOT project, participating companies conducted VRIO analyses to identify the factors that contributed to their competitive advantage. The participants' goal was to identify and leverage the most valuable resources for strategic planning. The PESTEL analysis was used to identify external sustainability opportunities related to the company's operating environment, including regulatory requirements. An easy-to-use PESTEL analysis is not always the best way to analyze. In this context, PESTEL provided a starting point for assessing the company's sustainability framework as a current-state analysis from an external-factors perspective.

In the PESTEL analysis, companies mapped the factors affecting their business beyond their operating environment, including political, economic, social, technological, and legal aspects. This increased understanding of the significance of external factors affecting sustainability and responsibility in everyday business. At the same time, factors that directly or indirectly affect the operating environment of SMEs, EU directives and regulations, and the effects of megatrends, were identified. In addition, the development defined the necessary measures to meet stakeholders' requirements and considered the limitations, causes, consequences, and obstacles associated with strategic operating methods. The aim was to gain a competitive advantage by developing the areas of responsibility and sustainable development, and by identifying positive solutions and anticipating weaknesses and bottlenecks. The 8-field SWOT analysis, used in the strategic development of sustainability for SMEs, focused on the most essential aspects and impacts of practical business from a sustainability and strategy perspective to meet stakeholder requirements.

Conclusions

The VALIOT project's strategic business reviews and analyses of its business environment through VRIO, PESTEL, and 8-field SWOT analyses increased the participants' sustainability competence and understanding of the strategic importance of sustainable development. By integrating responsibility and sustainability data into daily operations and development processes, companies can leverage the development plans they have formulated as part of their practical responsible business practices, promoting profitable, realistic sustainability activities through these analyses. Companies updated their sustainability expertise and business strategies from a sustainable development perspective, the significance of which can be assessed, for example, through self-assessments and sustainability reporting. According to the feedback received, companies will continue to develop sustainability and responsibility in practice, driven by strategic stakeholder cooperation and a commitment to competitiveness. In the future, those who participated in the project will be able to take responsibility factors into account in everyday operations and tie them into the company's operations and future. Subjective experiences related to the business environment were restrictions, and stakeholders' demands might differ

depending on the business environment. The participants felt that linking responsibility and sustainable development to the company's operations made it easier to understand the topic and identify opportunities as part of practical business.

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