Small firm, **big waves**

Navigating ESG in maritime SME

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SUMMARY

"It is more important than ever that businesses take active leadership to show that growth and sustainability are not in conflict."

- Paul Polman, CEO of Unilever

In the evolving landscape of corporate sustainability, small and medium-sized enterprises (SMEs) are increasingly expected to demonstrate structured accountability through Environmental, Social, and Governance (ESG) practices. Yet dominant ESG narratives remain largely shaped by the experience of large firms, overlooking the distinct pathways of SMEs whose sustainability practices are often rooted in informal governance, personal values, and resource-constrained environments.

This thesis explores how embedded Corporate Social Responsibility (CSR) routines, stakeholder pressures, and internal capabilities shape the emergence of ESG practices in SMEs, using Liburnia Maritime Agency (LMA), a Croatian logistics company, as an in-depth case study. Through a qualitative approach - combining document analysis, stakeholder questionnaires, and semi-structured interviews - the research investigates how informal, values-driven CSR can evolve into more structured ESG engagement.

Findings show that LMA demonstrates a strong and deeply embedded commitment to Corporate Social Responsibility (CSR), reflected in values-led leadership, employee engagement, and community-oriented practices. As expectations from clients, financial institutions, and regulatory developments intensify, the company is beginning to articulate and structure its approach in ways that reflect ESG logic. This process is enabled by intangible resources, such as organisational culture, trust, and reputational legitimacy, as well as dynamic capabilities, including learning, responsiveness, and the ability to reconfigure internal routines in alignment with evolving demands.

Rather than treating ESG as a static compliance exercise, the thesis frames it as a relational and adaptive process, shaped by the interplay between internal capacities and external demands. Drawing on the Resource-Based View and Stakeholder Theory, it proposes a conceptual model that illustrates how SMEs can evolve toward ESG integration by building on their existing CSR practices and internal strengths.

Ultimately, the study challenges the notion of ESG as merely an external imposition on SMEs. Rather, it shows that when rooted in existing CSR practices and supported by internal capabilities, ESG can become a strategic enabler – enhancing resilience, reinforcing stakeholder relationships, and positioning SMEs like LMA as proactive contributors to sustainability transitions, even in the absence of formal mandates.

PREFACE

After two years filled with new experiences, challenges, excitement, and doubt I am proud to present my Master's thesis, *"Small firm, big waves."* This thesis marks the final milestone of my academic journey and is based on the research that explores the role of small and medium sized enterprises (SMEs) in advancing global sustainability. Rather than viewing SMEs as passive players, this research highlights their potential to become active shapers of change - exploring how they can transform deeply rooted, informal CSR practices into a more strategic, measurable, and forward-looking ESG engagement.

First and foremost, I would like to express my sincere gratitude to my supervisor, Sander Chan, for his thoughtful guidance, constructive feedback, reassurance, and for always bringing clarity and calm to the process.

A very special thank you goes to Maša, my internship supervisor at Liburnia Maritime Agency. Her kindness, encouragement, and example as a professional role model helped me feel at home from day one and gave me the confidence and resources I needed to do my best work.

I am deeply thankful to my family – my mom, sister, grandparents, and my Italian family – for their unconditional love and constant support. Thank you for always believing in me and being my biggest cheerleaders. The moment you have all been waiting for (almost as much as I have) is finally here, I'm getting my diploma!

Lastly, I want to give a big wholehearted thank you to my boyfriend Igor. Your unwavering patience and support have carried me through this journey. You have been my rock, my calm in the storm, and the voice of reason when I needed it most.

To all of you: thank you for your help, encouragement, and endless support, I couldn't have done this without you.

I hope you enjoy the read:)

Tara Huis

Nijmegen, 27.06.2025.

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List of abbreviations

Abbreviations	**Full term**
BTB	BackToBlu
CSRD	Corporate Sustainability Reporting Directive
CSR	Corporate Social Responsibility
ERFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, and Governance
ESRS	European Sustainability Reporting Standards
GRI	Global Reporting Initiative
ISO	International Organization for Standardization
LMA	Liburnia Maritime Agency
RBV	Resource-Based View
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
VRIO	Valuable, Rare, Inimitable, and Organized

1. Introduction

1.1. Global sustainability challenges and the role of business

The 21st century is increasingly defined by interlinked global challenges - climate change, biodiversity loss, rising inequality, and misinformation - that undermine social cohesion and threaten planetary boundaries. In response, the United Nations' 2015 Sustainable Development Goals (SDGs) articulated a holistic vision, emphasizing that social well-being, economic development, and environmental integrity must advance together (Galli & Bassanini, 2020). Unlike the Millennium Development Goals, the SDGs explicitly embrace complexity, acknowledging that no single domain can progress at the cost of another.

Addressing these challenges requires the full mobilization of societal actors, including the private sector. Businesses are no longer seen merely as economic engines but as essential agents of transformation. As Mawdsley (2018) observes, firms possess innovation capabilities, operational agility, and systems expertise that can accelerate sustainable transitions. When aligned with the SDGs, corporate strategy becomes a tool not only for risk mitigation and resilience, but also for value creation and market differentiation (ElAlfy et al., 2020). Sustainability, in this sense, is no longer a peripheral concern but a strategic imperative.

1.1.1. The evolution of corporate sustainability

The idea that corporations bear responsibilities beyond generating profits is not new. Over the past few decades, the concept of Corporate Social Responsibility (CSR) has evolved from philanthropic and reputational activities to more integrated approaches that embed ethical, social, and environmental concerns into business (Jamali & Karam, 2016; ElAlfy et al., 2020). Particularly among SMEs, these practices have often been informal and relational, grounded in personal values and community ties (Spence, 2014).

However, this normative, discretionary model is increasingly challenged by demands for accountability, transparency, and performance measurement. Movements including stakeholder capitalism, the circular economy, and regenerative finance signify a broader departure from shareholder primacy (Raworth, 2017; Konietzko et al., 2023). Increasingly, companies are being called upon to not just act responsibly, but to prove it through transparent disclosures and measurable outcomes (Thorlakson et al., 2018).

This shift is encapsulated in the rise of Environmental, Social, and Governance (ESG) frameworks. While rooted in CSR's ethical foundation, ESG represents a fundamental transformation: it emphasizes quantifiable indicators, aligns sustainability with risk and opportunity assessment, and is driven by external accountability pressures (Korca et al.,

2023). ESG goes beyond simply doing good, it involves clearly communicating tangible sustainability performance in a way that is understandable to markets and regulators.

Frameworks like the EU's Corporate Sustainability Reporting Directive (CSRD) and the Task Force on Climate-related Financial Disclosures (TCFD) embody this turn toward investor-focused reporting, seeking to embed sustainability within financial decision-making (Baboukardos et al., 2023). These frameworks have elevated ESG from a soft reputation mechanism to a standardized, regulatory tool for assessing long-term corporate viability (Maechler, 2022).

1.1.2. Why SMEs matter

Small and medium-sized enterprises (SMEs) form the backbone of most global economies and are critical players in achieving global sustainability goals. They represent 90% of global businesses and account for over 50% of global employment (World Bank SME Finance, n.d.). Despite this, SMEs remain underexplored in ESG discourse, even though they contribute an estimated 60-70% of global carbon emissions, resulting in a carbon footprint five times larger than that of big corporations (Kauffmann & Cusmano, 2022). As such, their inclusion in sustainability efforts is not optional but essential.

What makes SMEs particularly strategic is not only their omnipresence but their adaptability. Their lean organizational structures, close community ties, and values-based leadership often foster faster and more genuine sustainability adoption (Johnson & Schaltegger, 2015; Spence, 2014). Many SME owners are intrinsically motivated by ethical considerations and long-term commitment to community well-being, which can foster authentic and locally embedded sustainability practices (Spence, 2014; Vázquez-Carrasco & Lopez-Pérez, 2012).

Integrating ESG can benefit SMEs by improving risk management, facilitating access to sustainable finance, and boosting credibility with larger supply chain partners (Handrito et al., 2020). In an increasingly unpredictable world, aligning with ESG strengthens organisational resilience by ensuring that immediate actions support sustainable long-term objectives. For these reasons, active participation of SMEs is not only essential to achieving the SDGs but also vital for driving bottom-up innovation across sectors and regions.

1.2. Problem statement

Despite growing recognition of their role, SMEs face distinct obstacles in transitioning from informal CSR practices to formal ESG systems. SMEs often rely on relational and values-driven approaches that emphasise community impact over standardised disclosure. However, the accelerating urgency of environmental and social challenges is

pushing for structured, transparent, and measurable frameworks like ESG. Yet most ESG tools were designed with large corporations in mind. SMEs often lack the institutional, financial, or technical infrastructure needed to comply (Johnson & Schaltegger, 2015; Kauffmann & Cusmano, 2022). Consequently, they risk exclusion from sustainability-linked finance, global supply chains, and regulatory readiness (Handrito et al., 2020).

This gap creates a critical tension: many SMEs are committed to sustainability in principle but lack the capacity to translate that commitment into ESG-compatible ways. Despite growing recognition, academic research has only recently begun to explore the transitional space between CSR and ESG adoption in SMEs - specifically, how internal motivations, stakeholder pressures, and resource limitations interact to shape ESG readiness (De Falco et al., 2021; Pizzi & Coronella, 2024)

Liburnia Maritime Agency (LMA), a prominent Croatian SME specializing in maritime transport and logistics, exemplifies these dynamics and offers a compelling case for examining this gap. LMA has demonstrated a commitment to sustainability by adopting various CSR initiatives, including ISO-certified management systems and environmental campaigns, but has not yet formalized an ESG strategy. Operating internationally, LMA must navigate diverse and evolving regulatory requirements and sustainability expectations, placing additional pressure on its transition process. Understanding how SMEs navigate this shift provides valuable insights for adapting ESG frameworks to their realities and highlights the interaction between internal capabilities and external pressures during ESG integration.

1.3. Research aim and questions

Informed by the challenges identified above, this research aims to explore how CSR practices and internal capabilities enable the development and evolution of ESG in a SME context. Using LMA as a case study, the research investigates how an SME already engaged in value-driven, informal CSR can begin to articulate and structure its sustainability efforts in ways that align with emerging ESG expectations.

Rather than treating ESG implementation as a fixed end-state, the study adopts a process-oriented view of ESG as an evolving organisational response shaped by both internal foundations (e.g. CSR routines, leadership values, organisational culture) and by external pressures, such as stakeholder expectations and signals from the evolving regulatory environment. In doing so, the research addresses a key gap in the literature concerning how SMEs navigate the early and often ambiguous stages of ESG development, where informal practices begin to interface with more formalized reporting standards and stakeholder demands.

The research is informed by two complementary theoretical perspectives: Stakeholder Theory (Freeman, 1984) and Resource-Based View (J. Barney, 1991). Stakeholder Theory helps to examine how external actors and expectations, such as client demands, regulatory developments, and broader supply-chain dynamics, influence SMEs' perceptions of and responses to ESG-related pressures. In contrast, RBV focuses on internal resources and capabilities including leadership commitment, organisational culture, operational routines, and prior CSR experience, that may enable a firm's ability to adapt to these pressures. Together, these frameworks highlight how ESG in SMEs evolves through the interplay of internal capacities and stakeholder-driven expectation for transparency, responsibility, and sustainable value creation.

To achieve the research aim, the study is guided by the following research question:

How do embedded CSR practices, stakeholder pressures, and internal capabilities shape the strategic transition toward ESG in an SME context?

This central question is supported by the following sub-questions:

1. *What CSR practices are embedded at LMA, and how do they reflect alignment with ESG principles?*
2. *How do stakeholder expectations and pressures influence ESG orientation in SMEs?*
3. *How do internal resources and capabilities enable SMEs to formalize and operationalize ESG practices?*
4. *How is ESG transition emerging at LMA and what internal dynamics shape its strategic readiness?*

Together, these questions aim to provide a comprehensive, multidimensional understanding of how CSR, external pressures, and internal capabilities interact to inform and shape ESG strategies within SMEs.

1.4. Scientific and societal relevance

While the role of SMEs in advancing sustainability is increasingly acknowledged, academic research continues to focus disproportionately on large multinational corporations (Panwar et al., 2015; Kauffmann & Cusmano, 2022). This has led to a persistent empirical and theoretical bias that underrepresents the unique challenges and contributions of SMEs, particularly in countries like Croatia, where such firms dominate the economic landscape but often fall outside formal ESG reporting requirements. Despite growing institutional and market pressures, little is known about how SMEs engage with environmental, social, and governance (ESG) principles when not legally mandated to do so (Setyaningsih et al., 2024).

This thesis addresses this gap by investigating how SMEs interpret emerging ESG expectations and how their existing, often informal, CSR practices can be mobilized to develop more structured and accountable sustainability strategies. In doing so, it responds to calls for a more nuanced understanding of sustainability transitions in firms with limited regulatory exposure but high contextual relevance (Martiny et al., 2024). The study contributes to the literature by empirically examining ESG emergence as a process shaped by internal values, cultural routines, and leadership commitments, rather than by external compliance alone.

Theoretically, the research deepens and extends the Resource-Based View (RBV) by showing how CSR-related capabilities, typically seen as soft, ethical, and non-strategic can evolve into valuable, rare, and inimitable resources when aligned with emerging ESG norms (J. Barney, 1991; Teece, 2007). It complements this with insights from Stakeholder Theory (Freeman, 1984), exploring how SMEs perceive and prioritize stakeholder demands in the absence of formal ESG mandates. By doing so, the thesis advances a process-oriented, non-linear view of ESG development in SMEs - one that emphasizes adaptation, organisational learning, and stakeholder dialogue over compliance-based models.

The study also contributes methodologically by focusing on a single in-depth case in a transitional economy. Croatia represents a particularly relevant setting for ESG research, as an EU member stiving to meet sustainability standards, despite still being in the early stages of institutional development. By generating original data from this context, the research enriches the empirical base of ESG studies, which remain overly concentrated in highly regulated settings (Jiang et al., 2024; Martiny et al., 2024).

From a societal perspective, this research addresses the urgent need for inclusive and context-sensitive approaches to SME sustainability. As formal ESG regulations, namely the CSRD and ESRS expand across Europe, there is a growing risk that smaller firms lacking resources, technical expertise, or regulatory clarity, may be left behind. This not only limits their contribution to sustainability transitions but may also create uneven playing fields that favour larger, well-resourced corporations.

By examining the case of Liburnia Maritime Agency, the study offers insight into how SMEs can engage meaningfully with sustainability despite not being formally obligated to report on it. It highlights both enabling conditions, such as value-driven leadership, embedded CSR routines, and employee engagement, and persistent challenges, including informal systems and limited external support. These findings are particularly relevant for countries like Croatia, where SMEs dominate the business landscape but remain largely excluded from ESG policy frameworks.

The research offers practical value for SMEs seeking to build on their existing CSR efforts and align with emerging expectations. It also informs policymakers and sustainability

advocates by emphasizing the need for proportionate, SME-focused support, like simplified reporting tools, training programs, and phased compliance models. Ultimately, the study contributes to a more equitable sustainability transition, where smaller firms are recognised not only as compliant actors but as key contributors to long-term environmental and social progress.

1.5. Structure of the thesis

The thesis is organized as follows. Following this introduction, the literature review critically examines the evolution and conceptual distinctions between CSR and ESG, particularly in the context of SMEs. It explores how informal, values-driven CSR practices may lay the groundwork for the emergence of structured ESG strategies, and discusses the capabilities, leadership values, and stakeholder expectations that influence this transition. The theoretical framework then introduces the Resource-Based View and Stakeholder Theory, with a focus on dynamic capabilities and process-oriented lens for understanding how SMEs like LMA can respond to emerging ESG demand by building on existing CSR-related routines and resources. The methodology chapter outlines the qualitative case study approach, followed by the presentation and analysis of empirical findings. The discussion chapter synthesizes the findings in relation to the research questions and theoretical framework, and presents implications for theory, practice, and policy. Lastly, the conclusion summarizes key insights from the research.

2. Literature review

Sustainability has become a central concern for businesses worldwide, driven by worsening environmental crises, deepening social inequalities, and shifting expectations from stakeholders across markets. While sustainability discourse has traditionally focused on large multinational corporations, SMEs - which constitute over 90% of businesses globally and contribute substantially to employment and economic growth - are increasingly recognized as vital actors in advancing sustainable development (World Bank SME Finance, n.d.). Notably, SMEs are estimated to account for approximately 60-70% of global carbon emissions with a carbon footprint five times greater than that of big corporations (Kauffmann & Cusmano, 2022). Their inclusion in sustainability frameworks is therefore essential.

Within this context, two dominant paradigms have emerged to guide corporate sustainability: Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) frameworks. Although overlapping in intent, CSR and ESG diverge in scope, structure, and institutional alignment. In this thesis, CSR refers to a firm's voluntary, values-based engagement with social and environmental concerns, often shaped by the ethical orientation of owner-managers and embedded in local relationships (Spence, 2014). Particularly in SMEs, these practices tend to be informal, narrative-driven, and tailored to the cultural and operational context of the firm (Murillo & Lozano, 2006; Jenkins, 2006). These actions are often undocumented, communicated through informal channels, and rarely subjected to standardised performance metrics (Fuller & Tian, 2006), reflecting relational rather than institutional forms of accountability.

By contrast, ESG represents a structured, metrics-based framework that emphasizes transparency, comparability, and strategic alignment with global sustainability objectives (Shen, 2022; Jiang et al., 2024). ESG disclosures enable investors, financial institutions, and regulators to evaluate a company's environmental impact, social performance, and governance quality in a consistent and auditable manner. ESG thus shifts the emphasis from internal ethical motivation to external accountability, from informal storytelling to standardised, evidence-based reporting (Dathe et al., 2022). Despite these differences, CSR and ESG are not mutually exclusive: CSR can serve as a cultural foundation and ethical guide for firms transitioning toward ESG adoption, particularly in SMEs where relational trust and embeddedness are key (Baumann-Pauly et al., 2011).

However, this transition is far from automatic. SMEs face significant challenges in formalizing their sustainability efforts due to resource constraints, knowledge gaps, and regulatory ambiguity, especially in transitional economies like Croatia, where institutional support for SME sustainability remains limited. To understand this transitional space, this study draws on the Resource-Based View (RBV) of the firm, which emphasizes the importance of internal capabilities in achieving competitive advantage

(J. Barney, 1991) and its extension through dynamic capabilities framework, which stresses the need to adapt, integrate, and reconfigure resources in response to changing environments (Teece, 2007). This is complemented by Stakeholder Theory, which highlights the influence of diverse internal and external actors in shaping organizational decisions (Freeman, 1984).

This chapter critically reviews the literature on CSR and ESG in the SME context. It opens with an analysis of how CSR is practiced in small firms, with a focus on their motivations, strategic approaches, and structural challenges. It then explores the emergence and characteristics of ESG, contrasting it with CSR and highlighting the specific challenges and opportunities ESG presents for SMEs. The chapter concludes with a discussion of sustainability reporting as a key mechanism for institutionalizing ESG practices. Together, these sections provide the conceptual foundation for analysing how Liburnia Maritime Agency (LMA) navigates the transition from CSR to ESG.

2.1. CSR in the SME context

Corporate Social Responsibility (CSR) refers to a company's voluntary commitment to act ethically, foster economic development, and promote social and environmental well-being (Carroll, 1999). While CSR has been extensively studied in the context of large corporations, its relevance in SMEs has gained traction only more recently (Morsing & Perrini, 2008; Bikefe et al., 2020). Historically, CSR scholarship underemphasized SMEs, often assuming their impact too limited to matter (Panwar et al., 2015). However, SMEs collectively contribute substantially to environmental degradation, notably through carbon emissions and waste generation (Baden et al., 2009), underscoring the importance of their inclusion in sustainability initiatives (Vázquez-Carrasco & López-Pérez, 2012; Wu, 2017)

Unlike large firms, SMEs typically embed CSR in their daily practices without formal structures. These actions - from local hiring and charitable contributions to environmentally conscious purchasing - are often guided by the personal values of owner-managers (Spence, 2014). Research confirms that the ethical and community-based motivations of SME leaders are pivotal in shaping CSR behaviour (Burton & Goldsby, 2007; Coppa & Sriramesh, 2012). In firms where ownership and management overlap, this moral influence becomes especially pronounced (Wickert, 2014).

2.1.1. Drivers and strategic orientation

A key distinction in CSR motivations lies in the interplay between intrinsic and extrinsic drivers. According to Deci et al. (1999) framework, intrinsic motivation reflects a firm's engagement in CSR because it is perceived as the morally right thing to do, while extrinsic motivation refers to engagement based on anticipated business benefits, such as

reputational gains, risk avoidance, or competitive advantage. Studies consistently find that intrinsic motivation dominates in SME contexts, with owner-managers often driven by a sense of responsibility, ethics, or citizenship rather than by market or regulatory demands (Graafland & Van De Ven, 2006; Grimstad et al., 2020). Still, these two forms of motivation are not mutually exclusive and may reinforce each other to shape more sustained forms of responsible business behaviour.

Strategic orientation also influences CSR implementation. SMEs with international operations or exposure to global supply chains tend to experience greater external CSR pressure (Jenkins, 2006; Grimstad et al., 2020). However, many still rely on informal routines - community donations, flexible labour practices, and ethical sourcing - rather than formalized indicators or third-party certifications (Russo & Tencati, 2008; Baumann-Pauly et al., 2011). This contrasts sharply with large corporations that institutionalize CSR as part of broader strategic and reputational frameworks (Fassin, 2008; Wickert, 2014).

CSR, though informal, can be strategically beneficial. Numerous studies highlight how embedded ethical practices contribute to stakeholder trust, brand loyalty, and even innovation (Jamali et al., 2015). When aligned with core business goals, CSR becomes a strategic asset rather than a discretionary cost (Porter & Kramer, 2007; Santos, 2011).

2.1.2. Barriers and constraints

Still, several barriers hinder the integration and strategic development of CSR in smaller firms. Resource limitations - financial, human, and cognitive - remain the most frequently cited constraints (Spence, 2014; Ortiz-Martínez & Marín-Hernández, 2023). Because CSR in SMEs is often informal and relational, these practices are rarely systematized, documented, or scaled (Russo & Tencati, 2008; Coppa & Sriramesh, 2012), which limits their visibility in institutional contexts that prioritize standardisation. Many SME owners are unaware of how their informal CSR might translate into structured sustainability strategies (Von Weltzien Høivik & Shankar, 2010). As a result, their contributions often remain underrecognized, particularly when facing growing expectations for transparency and accountability (Bikefe et al., 2020).

Due to their size and embeddedness, SMEs tend to have closer relationships with local stakeholders: customers, employees, suppliers, and communities (Jenkins, 2006; Perrini et al., 2006). This relational proximity fosters responsiveness and allows CSR to emerge as a co-created practice, grounded in relational trust rather than abstract norms (Murillo & Lozano, 2006). However, as sustainability expectations globalize and regulatory pressures increase, SMEs may find their informal models increasingly insufficient to meet stakeholder demands for transparency, comparability, and formalized governance (Jamali et al., 2008).

Ultimately, CSR in SMEs represents a hybrid space: a blend of ethical intention and evolving strategic logic. While its foundations are often moral and value-driven, its future

increasingly hinges on the ability of firms to formalize, align with strategy, and respond to institutional change (Ortiz-Avram et al., 2018). This requires not only internal motivation, but also the development of supportive capabilities and frameworks to translate CSR into structured, impactful outcomes.

2.2. ESG in SMEs: evolution, drivers, and challenges

Environmental, Social, and Governance (ESG) frameworks have rapidly emerged as the dominant paradigm for evaluating corporate sustainability performance, particularly in financial markets and regulatory contexts. The concept was formally introduced in the 2006 United Nations Principles for Responsible Investment (PRI) report, marking a shift from discretionary, value-driven nature of CSR towards a more structured, data-driven, and risk-oriented framework (Gillan et al., 2021). ESG provides measurable indicators that are increasingly used by investors, regulators, and supply chain actors to assess a firm's environmental and social footprint, ethical conduct, and governance practices (Martiny et al., 2024).

ESG frameworks are built around three pillars. The environmental dimension addresses issues include resource efficiency, climate change mitigation, and ecological risk, encouraging firms to internalize environmental externalities (Jiang et al., 2024). The social pillar addresses issues such as education, equity, health, and poverty alleviation. It aims to ensure sustainable social systems by promoting fair treatment of employees, community engagement, and support for societal development (Jiang et al., 2024). Governance pillar focuses on internal oversight mechanisms like board diversity, transparency, anti-corruption, and shareholder rights (Gillan et al., 2021; Martiny et al., 2024). Together, these three pillars provide a holistic lens for evaluating corporate sustainability, moving beyond financial metrics to assess how companies integrate ESG considerations into their business models.

Originally rooted in socially responsible investing, ESG has evolved into a global benchmark for corporate sustainability and now influences access to capital, firm valuation, and supply chain positioning (Alareeni & Hamdan, 2020; Alsayegh et al., 2020; D'Amato et al., 2023). However, the lack of standardisation across ESG rating systems remains a key obstacle to credibility and comparability (Talan & Sharma, 2019).

2.2.1. ESG barriers and opportunities

For SMEs, ESG presents both barriers and opportunities. On the one hand, they face considerable barriers to adoption as they typically lack the financial, human, and technical resources required to interpret, collect, and report ESG data (Spence, 2014; Alkatheeri et al., 2023). Many are unfamiliar with ESG terminology or find existing reporting frameworks too complicated (Bassen & Kovács, 2020). However, in supply

chains and finance markets, ESG compliance is increasingly a prerequisite for participation (Shen, 2022).

This regulatory and informational overload is made worse by the absence of a specific ESG framework for SMEs. Most current standards are created for large, listed, or multinational companies, making them too complex or not relevant for smaller businesses (Gillan et al., 2021). Without clear guidance on which indicators to report and how to measure them, SMEs may be left out of green finance or responsible procurement programs - even though many have strong informal sustainability practices.

Despite these challenges, ESG can offer competitive advantages. Enhanced ESG performance improves a company's credibility and visibility in markets that increasingly prioritize sustainability (Babajee et al., 2021). Additionally, it opens doors to sustainable finance opportunities, as banks and investors increasingly integrate ESG into lending and investment decisions (Martiny et al., 2024). Beyond financial benefits, aligning with ESG principles helps build long-term relationships with stakeholders, boosts employee engagement, and strengthens organizational resilience during crises (Crace & Gehman, 2022).

The internal factors driving ESG adoption are particularly important for SMEs. Leadership commitment, especially the values and vision of CEOs or owner-managers, plays a central role in shaping ESG trajectories (Martiny et al., 2024). Unlike large firms where governance structures may diffuse responsibility, SMEs often rely on the initiative and ethical stance of a small leadership group. Financial resources also affect ESG capacity: SMEs with greater resources are better positioned to invest in ESG-related activities such as reporting systems, emissions monitoring, and diversity initiatives. Moreover, the quality of corporate governance, including the presence of diverse and accountable boards, is positively linked to ESG success (Martiny et al., 2024). These internal drivers may partially offset the limited external pressures that SMEs typically experience.

On the other side, factors like country-level governance, industry regulations, and stakeholder pressure significantly influence the extent and nature of ESG engagement. SMEs that operate in countries with robust legal frameworks and active public discourse on sustainability tend to adopt more formal ESG practices (Mitra & Bui, 2024). Industry-specific standards also matter, especially when large buyers require smaller suppliers to meet ESG criteria. Additionally, cultural values and societal norms shape how urgently and legitimately SMEs perceive the need for ESG adoption (Jiang et al., 2024).

2.3. Bridging CSR and ESG: conceptual relationship

The relationship between Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) frameworks reflects a shift in how sustainability is conceptualized and operationalized within firms. While both concepts share the objective of encouraging responsible business conduct, they differ significantly in orientation, structure, and institutional function. In the context of SMEs, understanding the relationship between CSR and ESG is essential for grasping how informal, values-driven commitments may evolve into structured and measurable sustainability practices.

CSR, particularly in SMEs, is typically characterized by voluntary, internally motivated actions that reflect ethical obligations, community ties, and the personal values of owner-managers (Vázquez-Carrasco & López-Pérez, 2012; Spence, 2014). These actions are often embedded in day-to-day operations, informally implemented, and relationally driven - shaped more by moral intention than by strategic planning or external pressure (Grimstad et al., 2020; Russo & Tencati, 2009). In contrast, ESG has emerged as a more formal, externally oriented framework that institutionalizes sustainability across three domains - environmental performance, social responsibility, and governance integrity. It is explicitly designed to generate comparable, auditable data that inform investment decisions, regulatory compliance, and stakeholder assessments (Gillan et al., 2021)

This conceptual distinction translates into differences in both purpose and practice. CSR is often rooted in personal and community ethics, prioritizing social legitimacy and local engagement over standardised reporting. ESG, by contrast, reflects a logic of risk mitigation, value creation, and capital access - requiring structured disclosures, metrics, and processes aligned with institutional standards such as the Global Reporting Initiative (GRI) or the Corporate Sustainability Reporting Directive (CSRD) (Martiny et al., 2024; Alkatheeri et al., 2023). From this perspective, ESG is not a replacement for CSR, but rather its formalisation and extension into institutional contexts that demand transparency, comparability, and governance oversight.

The shift from CSR to ESG thus represents a movement from informal, qualitative commitments to formal, often quantitative accountability mechanisms. Governance, for example, is often implicit in CSR through ethical leadership and trust-based management, whereas ESG requires documented policies on board composition, anti-corruption measures, and stakeholder rights (Gillan et al., 2021). Similarly, environmental action under CSR may involve everyday behaviours like energy saving or local cleanups, while ESG frameworks demand systematic carbon accounting, science-based targets, and lifecycle impact assessments (Jiang et al., 2024).

Despite these differences, CSR can provide a crucial foundation for ESG adoption in SMEs. Longstanding CSR practices often reflect embedded organisational values and

stakeholder relationships, which can be leveraged to initiate ESG alignment (Colovic et al., 2019). For instance, informal practices related to employee welfare, local community support, or environmental awareness can be translated into ESG indicators with the help of standardised tools and reporting frameworks. In this way, CSR offers both a cultural anchor and an operational starting point for building ESG capabilities, especially in resource-constrained firms where formal sustainability systems are not yet in place.

Importantly, the CSR-ESG relationship is not linear nor universal. SMEs vary widely in terms of industry, scale, and strategic orientation, and the extent to which CSR translates into ESG depends on a range of internal and external factors, including leadership commitment, stakeholder pressure, access to knowledge, and regulatory demands (Shen, 2022; Johnson & Schaltegger, 2015). Some firms may already demonstrate high ESG readiness due to long-standing CSR cultures, while others may view ESG as externally imposed or misaligned with core operations.

Nevertheless, framing CSR as a relational and normative base, and ESG as its institutionalized and strategic extension, allows for a more nuanced understanding of sustainability trajectories in SMEs. This perspective positions CSR and ESG as interconnected layers in a continuum of responsible business development - where ethical intent meets institutional accountability, and where local legitimacy evolves into global recognition. For SMEs seeking to navigate this continuum, the challenge lies in adapting and expanding CSR to meet the structured expectations and strategic opportunities that ESG frameworks represent.

As SMEs begin to formalize their sustainability practices and align with ESG frameworks, reporting becomes a key mechanism for translating internal values and routines into externally recognized accountability. The following section therefore explores the role of sustainability reporting in bridging operational practices and stakeholder expectations and examines its implications for SMEs seeking to institutionalize ESG.

2.4. Sustainability reporting

Sustainability reporting refers to the practice of disclosing non-financial information regarding a firm's ESG performance, with the aim of improving transparency, accountability, and decision-making among stakeholders (Da Silva, 2025). It encompasses both qualitative narratives and quantitative metrics across areas such as emissions, diversity, supply chain ethics, and human rights. While closely linked to ESG frameworks, sustainability reporting serves as the operational tool that transforms abstract commitments into verifiable disclosures. It functions as a key accountability mechanism, translating values into structured performance data, and enables comparability across firms (Setyaningsih et al., 2024; Gillan et al., 2021).

2.4.1. Reporting frameworks

Over the last two decades, sustainability reporting has become increasingly institutionalized, resulting in the emergence of both voluntary and regulatory frameworks. Notable voluntary initiatives include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD). They vary in scope, focus on different stakeholder groups, and apply different levels of methodological strictness, leading to inconsistent adoption and alignment across sectors and regions.

Within the EU, regulatory harmonization efforts began with the Non-Financial Reporting Directive (NFRD) and have since evolved into the more expansive Corporate Sustainability Reporting Directive (CSRD). While the NFRD was a pivotal first step, it suffered from a lack of standardisation, limited enforcement, and inconsistent data quality (Figueiredo et al., 2025). The CSRD aims to address these issues by expanding the reporting scope to include listed SMEs, introducing mandatory assurance, and aligning disclosures with the European Sustainability Reporting Standards (ESRS) developed by European Financial Reporting Advisory Group (EFRAG).

However, the rapid evolution of EU regulations has introduced significant uncertainty for SMEs. While the CSRD and ESRS seek to enhance transparency and comparability, they have been criticised for their complexity and limited scalability to small businesses (Figueiredo et al., 2025). The European Commission's May 2025 OMNIBUS package attempts to ease compliance by delaying implementation and simplifying requirements for second- and third-wave firms. Yet these modifications have also generated confusion, particularly among SMEs that operate on tight resource constraints and lack clarity on what is required, when, and how.

2.4.2. SME reporting challenges and opportunities

For SMEs, sustainability reporting is both a strategic opportunity and a structural challenge. As Setyaningsih et al. (2024) observe, SMEs face a range of obstacles in adopting sustainability disclosure practices. Among the most significant are financial constraints, the high costs of data collection, reporting infrastructure, and external assurance often outweigh the perceived short-term benefits (Setyaningsih et al., 2024). Organizational limitations further hinder adoption: many SMEs lack a defined sustainability strategy, dedicated ESG personnel, or board-level oversight for non-financial issues (Setyaningsih et al., 2024). Knowledge and technological gaps, including fragmented internal systems and low familiarity with standards, namely the GRI or the ESRS, reduce the capacity for meaningful engagement. Additionally, SMEs face regulatory ambiguity, as shifting and overlapping policies create confusion about what to report, how to report it, and when.

Even in the absence of legal mandates, indirect pressures from clients, investors, and banks compel SMEs to align with ESG reporting norms. This phenomenon - where voluntary reporting becomes functionally mandatory - is particularly salient in sectors integrated into global supply chains or capital markets (Cardoni & Kiseleva, 2024), like maritime transport. Consequently, SMEs find themselves navigating a paradox: they are not officially required to report, yet failing to do so may risk exclusion from key business networks. Despite these challenges, meaningful engagement with sustainability reporting offers tangible benefits. It strengthens stakeholder trust, signals market readiness, and enhances resilience in the face of environmental or reputational risks. In this context, simplified, modular reporting tools and phased compliance mechanisms can enable SMEs to treat reporting not as a burden but as a strategic enabler.

2.4.3. Toward effective SME sustainability reporting

Emerging research emphasizes that sustainability reporting for SMEs must be context-sensitive, proportionate, and adaptive. Rather than imposing universal standards, reporting frameworks should accommodate the diversity, size, stakeholder contexts, and localised nature of SMEs (Setyaningsih et al., 2024). This perspective is increasingly reflected in recent policy efforts, such as the introduction of the OMNIBUS Directive - designed to simplify elements of CSRD - and the development of sector-specific European Sustainability Reporting Standards (ESRS) for SMEs. These initiatives demonstrate increasing recognition at the EU level that proportionality and clarity are essential to engaging SMEs in meaningful reporting practices.

To promote meaningful reporting, scholars propose a range of enabling measures: simplified templates aligned with SME realities, technical and financial support through public or industry partnerships, stakeholder-inclusive processes to identify material topics, and gradual pathways for reporting maturity (Setyaningsih et al., 2024). When implemented strategically, sustainability reporting should be seen not just as a compliance burden but as a dynamic process of organizational learning and strategic evolution. As SMEs increasingly engage with global sustainability frameworks, translating informal CSR practices into structured, verifiable ESG disclosures will be crucial for their long-term competitiveness and legitimacy. Nevertheless, several gaps persist. Most ESG research focuses on large, listed firms, overlooking the unique challenges and informal nature of sustainability in SMEs (Panwar et al., 2015; Kauffmann & Cusmano, 2022). Consequently, existing regulations often don’t fit SME realities. Additionally, the conceptual relationship between CSR and ESG remains underdeveloped (Dathe et al., 2022). Much research also relies on secondary data from ESG rating agencies that rarely cover smaller firms, limiting the applicability of findings and reinforcing biases (Martiny et al., 2024). These issues highlight the need for process-focused studies and tailored frameworks that help SMEs integrate ESG effectively without excessive burden.

3. Theoretical framework

3.1. The Resource-Based View

The Resource-Based View (RBV) provides a strategic lens for analysing how internal firm characteristics, rather than external market conditions, shape the ability to achieve and sustain competitive advantage (J. Barney, 1991). This perspective is particularly useful for understanding how SMEs like LMA can integrate sustainability practices into their operations even in the absence of regulatory mandates. According to RBV, sustained competitive advantage arises when a firm possesses resources that are valuable, rare, inimitable, and organised - the VRIO criteria (J. B. Barney, 1995).

These resources can be tangible - including physical assets and financial capital - or intangible, including brand reputation, managerial expertise, organisational culture, and knowledge assets (Carmeli & Azeroual, 2009). In the context of sustainability, intangible resources have gained increasing importance, as they often underpin innovation, legitimacy, and stakeholder trust, which are critical for addressing complex ESG challenges (Frynas & Yamahaki, 2016). For example, managerial expertise and a strong ethical culture can enable firms to proactively manage environmental and social responsibilities, transforming CSR from a normative commitment into a strategic asset (Pumiviset & Suttipun, 2024).

When CSR is embedded within a firm's culture and operational routines, it not only ensures alignment with stakeholder expectations but also strengthens legitimacy, trust, and long-term resilience (Frynas & Yamahaki, 2016). These outcomes enhance a firm's reputation and stakeholder loyalty, positioning CSR-related practices as strategically valuable under the RBV framework. In this light, ESG capabilities, which include transparency, innovation, and sustainability-oriented leadership, can be seen as dynamic resources that contribute to long-term performance. Thus, ESG is not merely a cost or regulatory burden, but a pathway for resource-based transformation and sustained competitive advantage.

3.1.1. Dynamic capabilities

While resources refer to what a firm has, capabilities capture what a firm can do with those resources. Capabilities are manifested through organisational routines, processes, and organisational skills that enable firms to deploy resources effectively, adapt to change, and innovate (Teece et al., 1997). This distinction is essential in the ESG context, where competitive advantage derives not only from possessing resources but from mobilizing them to respond to complex sustainability challenges.

Building on the RBV, the dynamic capabilities framework emphasizes a firm's capacity to integrate, build, and reconfigure both internal and external competencies in response to shifting environments (Teece et al., 1997; Teece, 2007). Teece (2007) identifies three

foundational processes: sensing opportunities or threats (e.g., regulatory or stakeholder demands), seizing them through investment or action, and reconfiguring routines and structures to sustain alignment and performance.

To operationalize ESG, firms need a constellation of interdependent internal capabilities, with managerial capabilities forming the foundation. In SMEs, the vision, values, and commitment of owner-managers play a critical role, as their ethical orientation and strategic intent directly influence ESG priorities (Frynas & Yamahaki, 2016; Pumiviset & Suttipun, 2024). Strong leadership commitment not only initiates ESG efforts but also sustains momentum and fosters internal alignment around sustainability goals.

Operational capabilities are also essential as they encompass the institutionalization of routines and processes such as emissions tracking, supply chain audits, and employee welfare programs. Embedding such practices ensures ESG is not downgraded to side projects but becomes integral to operational excellence.

Learning capabilities enable firms to acquire, interpret, and apply sustainability-related knowledge. This includes processing stakeholder feedback, analysing performance metrics, and integrating lessons learned from CSR experiences. Firms with strong learning capabilities can adapt their ESG strategies in response to evolving stakeholder expectations and regulatory landscapes, strengthening long-term sustainability performance (Pumiviset & Suttipun, 2024).

Relational capabilities reflect a firm's ability to build and maintain enduring, trust-based relationships with stakeholders. These relationships form social capital, a rare and non-substitutable resource under RBV. In the ESG context, these ties support legitimacy and collaborative problem-solving (Frynas & Yamahaki, 2016; Crace & Gehman, 2022).

Finally, innovative capabilities allow firms to develop new products, services, or processes that address ESG imperatives, such as low-carbon technologies or inclusive governance models. These innovations help firms remain competitive and responsive to environmental and social challenges.

Together, these internal capabilities form the architectural foundation for transforming embedded CSR routines into structured ESG strategies. They enable SMEs to move beyond compliance, actively leveraging ESG as a source of resilience, legitimacy, and long-term value creation.

3.1.2. RBV in the context of SME

The RBV is particularly relevant for SMEs, which often lack the scale and financial resources of larger corporations but possess distinctive internal strengths that can be strategically leveraged. Rather than relying solely on external compliance mechanisms, RBV emphasizes how firm-specific resources, including leadership commitment, social

capital, and organisational knowledge, can form the basis of sustained competitive advantage (J. Barney, 1991; Asumah et al., 2024).

In the case of LMA, capabilities developed through CSR, namely stakeholder networks, ISO certifications, and community engagement represent intangible assets that support the formalization of ESG strategies. When these assets meet the VRIO criteria (valuable, rare, inimitable, and organisationally embedded), they can generate long-term benefits, even in the absence of binding ESG mandates (Cardoni & Kiseleva, 2025).

However, traditional RBV has been critiqued for its static nature and its limited ability to explain how firms adapt to dynamic environments (Teece et al., 1997). This is a notable limitation in the ESG context, where shifting stakeholder expectations, regulatory changes, and emerging sustainability risks require agility and responsiveness. To address this gap, the framework is extended through the lens of dynamic capabilities – defined as a firm's ability to sense opportunities or threats, seize them through resource mobilization, and reconfigure existing routines and systems to maintain strategic alignment (Teece, 2007; Liang et al., 2022). For SMEs, this capability-driven evolution is increasingly recognized as a pathway to sustainable performance

Recent literature also shows that SMEs' competitive advantage often stems less from financial capital and more from embedded relational and cultural resources, such as trust with stakeholders and reputation for responsible business conduct (P et al., 2024). These "invisible assets" offer SMEs a distinctive platform for integrating ESG gradually and authentically. Thus, RBV and dynamic capabilities offer a complementary and processual understanding of how SMEs can mobilize internal strengths to engage with externally driven sustainability norms.

3.2. Stakeholder theory

Stakeholder theory provides a relational and ethical foundation for understanding the strategic relevance of ESG in SMEs. Initially proposed by Freeman (1984), the theory expands the firm's responsibilities beyond shareholders to include all actors who can affect or are affected by its operations - employees, customers, suppliers, communities, NGOs, regulators, and investors. This inclusive perspective aligns with the sustainability agenda by emphasizing long-term value creation, legitimacy, and social responsiveness (Freeman & McVea, 2001).

ESG frameworks institutionalize these concerns by translating stakeholder expectations into measurable indicators of environmental impact, labour practices, and governance structures (Jiang et al., 2024). From this perspective, Stakeholder Theory helps explain why SMEs adopt ESG strategies even in the absence of regulatory pressure: to maintain legitimacy and secure trust among key stakeholders. For instance, supply chain partners

and financial institutions increasingly condition contracts or credit on demonstrable ESG credentials (Martiny et al., 2024). ESG thus represents a shift from voluntary CSR practices toward institutionalised accountability, providing mechanisms through which stakeholder concerns are standardised, disclosed, and comparably assessed (Spanò et al., 2025). This reflects a broader convergence between stakeholder responsiveness and strategic management.

Stakeholder Theory has long underpinned the CSR discourse, emphasizing firms' ethical obligations to society beyond profit maximization (Garcia-Sanchez et al., 2015). Its relevance is especially pronounced in SMEs, where stakeholder relationships tend to be informal yet deeply rooted. This embeddedness allows SMEs to engage in trust-based sustainability practices that, while underreported, can be powerful levers of resilience and legitimacy (Crace & Gehman, 2022). Thus, Stakeholder Theory complements RBV by illuminating how external expectations act as triggers for internal transformation.

3.2.1. Stakeholder engagement and ESG

Empirical research increasingly supports the view that stakeholder engagement is not only ethically desirable but also strategically beneficial for ESG performance. Firms that engage stakeholders through consultations, partnerships, or participatory processes often enjoy higher levels of trust, stronger reputation, and better alignment with stakeholder expectations (Alareeni & Hamdan, 2020; Alsayegh et al., 2020).

For SMEs like LMA, stakeholder engagement is typically conducted through direct, relational channels. These interactions constitute valuable social capital, recognized under RBV as a rare and inimitable resource that can bolster ESG implementation. Stakeholder input helps SMEs identify material sustainability topics, tailor disclosures to relevant concerns, and co-develop strategies for long-term impact (Crace & Gehman, 2022).

This process not only enhances legitimacy but also facilitates access to external resources, such as funding, knowledge, or market access, thereby strengthening the firm's adaptive capacity. In this way, stakeholder engagement becomes both a catalyst and a conduit for ESG strategy, especially in contexts where regulatory scaffolding is weak.

3.3. Theoretical integration

Together, the RBV and Stakeholder Theory offer a complementary framework for analysing ESG implementation in SMEs. RBV focuses on how internal resources and capabilities enable firms to develop sustainability strategies, while Stakeholder Theory highlights the external pressures and legitimacy dynamics that these efforts.

Dynamic capabilities serve as a bridge between these perspectives, explaining how firms continuously adapt their internal resources in response to changing stakeholder demands. This iterative process illustrates how SMEs can sense changes in their environment, seize opportunities through internal mobilisation, and reconfigure routines to align with emerging ESG standards (Teece, 1997; Pumiviset & Suttipun, 2024). For example, stakeholder feedback may prompt LMA to enhance its emissions tracking system, which in turn reinforces learning and innovation capabilities.

This integrated framework reflects the reality that ESG in SMEs is neither static nor prescriptive, but emergent and relational. By combining internal resource mobilisation (RBV), adaptive strategy (dynamic capabilities), and stakeholder responsiveness (Stakeholder Theory), it becomes possible to understand how CSR practices evolve into structured ESG strategies that enhance both competitive advantage and societal impact.

3.4. Theoretical limitations

While RBV and Stakeholder Theory provide valuable insights into the development of ESG strategies within SMEs, it is important to acknowledge their theoretical limitations and the scope of this framework. RBV, despite its analytical strength, has been critiqued for its predominantly instrumental and economically driven orientation, which may overshadow the ethical foundations of CSR and the broader societal motivations behind sustainability efforts (Freeman et al., 2021). By focusing on how resources contribute to competitive advantage, RBV risks neglecting the intrinsic value of ESG initiatives as moral imperatives or public goods, especially in contexts where firms engage in sustainability not merely for performance gains but as a matter of principle.

Stakeholder Theory, in turn, offers a normative perspective on business-society relations, yet it faces challenges in operationalisation. One key difficulty lies in balancing the often-competing interests of various stakeholder groups. The absence of clear criteria for prioritisation can lead to ethical tensions and practical dilemmas, particularly when resource constraints force firms to make trade-offs (Richter et al., 2013). Moreover, the theory lacks detailed guidance on how to systematically measure stakeholder engagement or assess its direct impact on organisational outcomes (Alsayegh et al., 2020). This presents a limitation for empirical studies that aim to link stakeholder dynamics with ESG performance in a structured and comparative manner.

In light of these theoretical constraints, this study acknowledges that other factors, including regulatory frameworks, industry-specific pressures, and cultural or regional norms also shape ESG development in SMEs (Martiny et al., 2024). However, while these exogenous drivers are recognised, they fall outside the central analytical focus of this thesis. The emphasis remains on the internal capabilities and relational mechanisms that enable firms to sense, adapt to, and strategically integrate ESG within their

operations. By foregrounding the interplay between RBV and Stakeholder Theory, this research aims to capture the dual importance of internal capacity-building and external legitimacy-seeking in the ESG trajectories of SMEs.

3.5. Conceptual model

The conceptual model illustrates ESG integration in SMEs as a dynamic, capability-driven evolution emerging from embedded CSR practices. Drawing on the RBV (J. Barney, 1991), dynamic capabilities (Teece, 2007), and Stakeholder Theory (Freeman, 1984), it conceptualizes ESG not as a replacement for CSR, but as its formalisation in response to both inte4rnal enablers and external pressures.

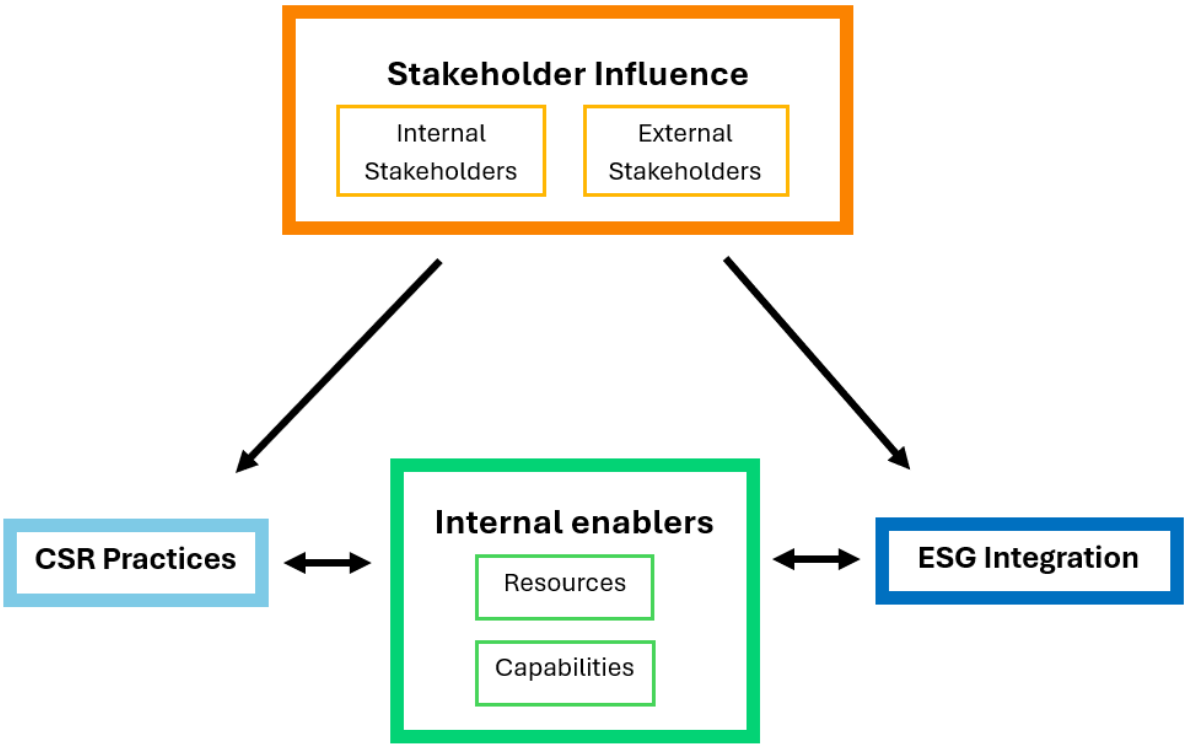

Figure 1. Conceptual framework for ESG emergence

CSR practices serve as the analytical starting point, reflecting values, routines, and ethical orientations already embedded within the organization. However, these practices alone are not sufficient to advance ESG development. The transition toward ESG depends on internal enablers, that is firm-specific resources and capabilities that mediate the evolution from CSR to ESG by shaping the firm's ability to respond strategically to stakeholder expectations and broader sustainability goals. These enablers include leadership commitment, operational systems, organisational culture,

and learning capacity. When such enablers meet VRIO criteria (J. Barney, 1991), they become strategic assets for ESG integration.

The model positions stakeholder influence - both internal and external - as a contextual and directional force that acts upon CSR and ESG. These pressures may be normative, market-based, or compliance-oriented pressures, influencing the direction an intensity of sustainability efforts.

The arrows in the model illustrate causal and reinforcing relationships: CSR practices inform and shape internal enablers, which in turn condition the development and formalisation of ESG. ESG practices then feed back into strengthening internal systems, promoting continuous learning and adaptive capacity. Overall, the model captures a process-oriented and relational view of ESG emergence in SMEs, emphasizing how internal capabilities drive strategic sustainability transitions.

4. Methodology

4.1. Research design

Thie research adopts a qualitative, exploratory case study design to investigate how ESG practices emerge from pre-existing CSR activities within an SME context. The case study approach is well-suited for in-depth examination of complex, context-dependent phenomena and for addressing *how* and *why* questions about real-life processes (Yin, 2017). Case study allows for rich, holistic analysis of dynamic organisational settings – making this methodology particularly appropriate for examining evolving sustainability practices in small firms. LMA, a Croatian SME operating in the maritime transport sector, was purposefully selected as the case as it provides a relevant and information-rich example of how a smaller firm in a complex industry engages with sustainability in practice.

Rather than conceptualizing ESG implementation as a fixed or singular event, the study takes a process-oriented perspective, viewing ESG as an evolving organisational outcome shaped by ongoing stakeholder interactions, internal capabilities, and strategic adaptation. This aligns with the study's dual theoretical foundation: Stakeholder Theory (Freeman, 1984), which emphasizes the role of external pressures and legitimacy concerns, and the RBV (J. Barney, 1991), which highlights how firm-specific resources and capabilities influence strategic responses over time.

Epistemologically, the study adopts an interpretivist stance, which posits that knowledge is socially constructed and best understood by interpreting the meanings individuals assign to their experiences (Moon & Blackman, 2014). Rather than seeking universal laws, interpretivism prioritizes contextual understanding, making it especially appropriate for the SME context where sustainability practices are often informal, relational, and value-driven forms that are not fully captured through standardised measurement.

Ontologically, the research is grounded in constructivism, which holds that reality is not fixed or objectively measurable, but continuously shaped through social interaction, language, and interpretations (Lincoln et al., 1985). From this perspective, ESG is not viewed as a static framework imposed on organisations, but rather as a dynamic set of meanings and practices that evolve through the interplay of leadership values, stakeholder expectations, and organisational routines. This constructivist orientation supports a processual understanding of ESG, treating it as an ongoing narrative shaped by local contexts, actors' interpretations, and embedded routines, rather than as a binary state of compliance or non-compliance.

Together, these philosophical positions justify the use of in-depth qualitative methods, including semi-structured interviews, document analysis, and stakeholder mapping.

These methods are appropriate for capturing the emergent, socially constructed, and embedded nature of sustainability transitions in SMEs.

4.2. Operationalization

Building on the theoretical framework, this section outlines how the study's core concepts were translated into empirical indicators and coding categories. The key concepts - CSR, ESG implementation, stakeholder influence, and internal resources and capabilities were operationalized through empirically grounded dimensions designed to guide both data collection and analysis.

The operationalisation process followed a hybrid approach, combining deductive and inductive strategies. It began with sensitizing concepts drawn from the literature to shape the initial codebook, while also staying open to themes that emerged reflecting the specific context of LMA (Fereday & Muir-Cochrane, 2006).

CSR was conceptualized as the firm's earlier, informal engagement with sustainability. At LMA, this included community-oriented activities, managerial values shaping social or environmental commitments, and prior sustainability efforts not yet tied to formal ESG frameworks. These were operationalized through indicators such as CSR activities (*CSR in daily operations),* leadership-driven initiatives (*Management's sustainability mindset*), employee-led sustainability actions *(Employee involvement and awareness),* and community-oriented efforts *(Environmental CSR practices)*. Broader commitments to *Organisational values* and *Organisational culture* also reflected this CSR orientation. Codes like *CSR to ESG*, *Understanding of ESG*, and *Management's sustainability mindset* captured how legacy practices and managerial intent provide the foundation for ESG development.

ESG implementation was understood as the emergence of formalized and measurable sustainability practices aligned with environmental, social, and governance standards. It was operationalized through indicators including the development of *ESG implementation structures*, *ESG indicators and measurement*, *Formal ESG reporting systems* (*ESG reporting systems*, *ESG reporting – financial/market*, *ESG reporting – legal & compliance*), and organizational performance mechanisms (*Quality control mechanism*, *Risk management*, *Process-oriented improvements*). Codes such as *ESG integration*, *Organisational readiness for ESG*, *Organisational commitment*, and *Strategic alignment* captured the extent to which ESG was embedded into LMA's internal operations and long-term strategy. *Environmental CSR practices* and participation in *Sustainable supply chain collaboration* further reflected institutionalization of environmental objectives.

Stakeholder influence, informed by Stakeholder Theory, was operationalized by examining the role of both internal and external actors in shaping ESG development. External dimensions included *Clients/customers*, *Suppliers*, *Regulators/auditors*, *Financial institutions*, and *External ESG expectation*. Internal influence was assessed through *Employee well-being*, *Customer orientation*, and *Public and stakeholder image*. Broader institutional forces were captured through codes like *Institutional environment*, *Institutional environment – Croatia*, *Normative SH pressure*, *Systemic SH pressure*, and *SH pressure*. *SH collaboration* and *Benchmarking* were key in capturing relational and comparative influences. The *Large firms vs. SME* code reflected how stakeholder expectations differ based on organizational size.

Internal resources and capabilities, conceptualized through the Resource-Based View (RBV), focused on intangible assets enabling ESG adoption. These included *Leadership/management*, *Organizational learning and development*, *Learning capacity*, and *Internal adaptability*. Codes such as *Active participation in learning*, *Capacity building*, and *Continuous improvement* reflected the development of dynamic capabilities, while *Organizational practices* and *Organizational commitment* captured embedded routines. The code *Uncertainty* was used to identify internal perceptions of ambiguity or hesitancy, while *Market competitiveness* and *Strategic alignment* highlighted the strategic framing of ESG as a value-adding initiative.

Importantly, this operationalization acknowledged key interactions between categories. For example, the alignment between *External ESG expectation* and *Organizational readiness for ESG* was treated as a condition for progress. Similarly, *CSR to ESG* and *Understanding of ESG* revealed how existing values and informal efforts were repurposed toward formal ESG structures. The code *ESG as strategic opportunity* reflected how internal interpretation of ESG affected motivation and integration, particularly when ESG was viewed as a competitive differentiator.

This structured yet flexible operationalization ensured coherence between theoretical concepts and empirical investigation. It enabled the development of a coding scheme that captured both the evolving nature of ESG and the organizational routines and interpretations shaping its implementation. The resulting categorization revealed overlapping patterns, tensions, and enablers central to understanding how ESG emerges in SME settings.

Guided by the dual theoretical lens - Stakeholder Theory and the RBV - this framework balanced external legitimacy demands with internal capabilities. These perspectives shaped the interview protocol, document review criteria, and ultimately the coding structure, ensuring that the study could meaningfully trace ESG development as a process of negotiation between stakeholder expectations, internal values, and strategic adaptation.

4.3. Data collection

This study employed an iterative, multi-phase data collection strategy consistent with a process-oriented case study design. Data were gathered from multiple sources to capture how internal and external factors shape the emergence and institutionalization of ESG practices in an SME context. This approach followed a funnel structure, beginning with broad contextual insights and narrowing toward in-depth, stakeholder-specific data.

The first phase involved a desk-based review of academic and sectoral literature on CSR and ESG practices in SMEs. This helped identify key constructs and sensitizing concepts relevant to the study's theoretical framework. Building on this foundation, a review of internal company documents and secondary sources was conducted. These included strategic materials, internal presentations, policy documents, website content, and sustainability communications. The aim was to establish a baseline understanding of LMA's sustainability orientation and to inform the development of preliminary operational indicators tailored to its context.

Following this, a stakeholder analysis and mapping exercise was carried out in collaboration with the internship supervisor, who holds long-standing institutional and sector-specific knowledge. The mapping identified key internal and external actors with potential influence on the firm's ESG trajectory. Stakeholders were categorized by their role, influence, and relevance to the sustainability agenda, distinguishing between normative, strategic, and operational pressures. This mapping directly informed participant selection for the next phases of data collection.

The second phase consisted of a stakeholder questionnaire aimed at exploring perceptions of ESG, sustainability responsibilities, and expectations toward LMA's future direction. A purposive sampling strategy was used to ensure representation from key stakeholder groups, including internal actors (13 employees, 5 managers) and external stakeholders (3 clients and 8 suppliers). In total, the questionnaire was distributed to 29 individuals and 16 responses were received. This sample was considered appropriate given the company's size and organizational structure. Internally, the questionnaire was sent to all employees at LMA, ensuring comprehensive coverage of internal perspectives. Externally, it was shared with key clients and suppliers - stakeholders who hold long-term, trusted relationships with LMA. As the company works with a relatively small number of verified external partners, this selection reflected the full range of relevant external voices. The questionnaire combined closed and open-ended questions to gather both measurable trends and qualitative insights. Respondents were also invited to participate in follow-up interviews, facilitating a smooth transition to the next research phase.

The final and most detailed phase involved seven semi-structured interviews with stakeholders who had previously completed the questionnaire and expressed the

willingness to participate further in this research. An additional email was sent to all initial recipients, inviting them to take part in the interview phase; one more participant joined as a result. In total, interviews were conducted with one CEO, two managers, three employees, and one long-term client. While participation was voluntary, the final sample reflected a diverse range of roles and perspectives relevant to the study's objectives. Internally, interviews explored how leadership, employee engagement, internal communication, and organizational routines influence sustainability trajectory - dimensions informed by RBV. Externally, interviews examined stakeholder expectations, legitimacy pressures, reputational considerations, and collaborative efforts, in line with Stakeholder Theory. The aim was to build on insights gathered through the questionnaires and documents, and to allow participants to elaborate on motivations, challenges, and meanings attached to CSR and ESG within the organization's evolving context.

All interviews were conducted in Croatian, either in person or online, depending on participant availability. They ranged from 25 to 75 minutes. With participants' consent, interviews were audio-recorded, transcribed verbatim, and anonymized. Relevant quotes were translated into English for inclusion in the findings. To ensure consistency with the language of the thesis and accessibility for the reader, care was taken to preserve the nuance, tone, and original meaning of participant's statements during translation.

4.4. Data analysis

The analysis followed a thematic approach which allowed for a structured yet flexible method for identifying and interpreting patterns across diverse qualitative dataset (Braun & Clarke, 2006). This approach aligned well with the study's process-oriented research design, supporting a nuanced examination of how CSR and ESG practices are understood, shaped, and developed over time within the case company, LMA.

The analysis began with data familiarization, during which I thoroughly reviewed interview transcripts, internal documents, and responses from stakeholder questionnaires. This step helped build an initial understanding of the language, priorities, and perceptions expressed by various stakeholders, and supported the identification of recurring ideas and contrasts.

The next step involved initial coding using ATLAS.ti. Data were segmented into meaningful units and assigned descriptive codes that captured both surface-level content and deeper, interpretive insights. These codes reflected key areas of interest, including CSR practices, ESG readiness, stakeholder expectations, and organisational capabilities.

The coding process was informed by both deductive and inductive reasoning. Deductively, sensitizing concepts drawn from the literature provided a theoretical foundation for the initial codebook. Inductively, the process remained open to new

themes emerging directly from the data, allowing participant experiences to shape the analysis without being constrained by predefined categories.

As coding progressed, related codes were grouped into broader thematic clusters, which reflected both theoretical constructs and recurring empirical patterns. For example, references to employee engagement, internal learning, and leadership were grouped under the theme *Human Capital and Resources*, while discussions of metrics, reporting, and structured processes were coded under *ESG Operationalization and Practices*.

To enhance credibility through triangulation, data from three main sources – interviews, documents, and questionnaires - were analysed both individually and in relation to one another. For instance, stated commitments to sustainability found in internal documents were cross-checked against employees' perceptions voiced in interviews and contrasted with stakeholder expectations reported in the questionnaire. This process helped uncover consistencies and discrepancies between organisational intent and stakeholder perception, reducing bias and deepening interpretive insight.

While the questionnaire data were not statistically analysed, they were examined descriptively to identify general trends in stakeholder awareness, perceptions of ESG relevance, and willingness to engage with sustainability issues. These findings enriched the qualitative analysis by providing a broader context in which to situate individual narratives, especially where divergence between internal and external perspectives emerged.

Finally, a narrative analytical account was developed to integrate and present themes across the dataset, illustrating the layered, iterative, and evolving nature of ESG development at LMA. Selected quotes are included in the findings to substantiate interpretations and to give voice to participants. Translations from Croatian were carried out with close attention to preserving tone and nuance, ensuring accessibility and consistency for an English-speaking academic audience.

Taken together, this multi-step, theory-informed analytical strategy enabled a process-sensitive understanding of how ESG practices at LMA are shaped by a combination of legacy CSR activities, stakeholder dynamics, and evolving internal capacities. The combined use of thematic analysis, triangulation, and conceptual grounding ensured that the findings are not only empirically rich but also theoretically meaningful.

5. Case study analysis

5.1. Case overview

Liburnia Maritime Agency (LMA), founded in 2004 in Rijeka, Croatia serves as the founding entity and strategic core of the broader Liburnia Group. Despite its modest size – with a team of 20 employees working across commercial, operations, finance, marketing, and internal processes – LMA has played a central role in shaping the group's identity, international expansion, and governance orientation. The Groups as a whole is now recognised as a leading European asset-based logistics company, known for its expertise in complex, high-precision logistics operations across maritime, road, rail, and now air sectors. Its services include heavy-lift and project chartering, general forwarding, port agency, customs, and technical support.

Over the years, Liburnia Group has expanded its geographic and operational footprint, establishing offices in Poland, Czech Republic, and the Netherlands. This expansion was further strengthened by key acquisitions that diversified its asset base and service offerings. In 2021, it acquired Velebit Promet, a leading regional haulier specializing in exceptional transport, with a modern fleet of trucks and semi-trailers. More recently, in 2024, the integration of TANTA - a multimodal logistics provider based near Slovenia's Port of Koper – further enhanced the Group's ability to deliver seamless end-to-end solutions across Europe. offering multimodal transport solutions across road, rail, and sea. These developments position Liburnia Group as a vertically integrated actor in heavy logistics sector, with LMA at its organisational and cultural core.

Despite the Group's expansion and structural complexity, LMA retains a distinct identity. Its small, agile team and flat organisational structure foster swift decision-making, internal cohesion, and a strong sense of shared responsibility. This internal alignment has enabled LMA to preserve its founding values and maintain operational discipline, even as the Group evolves. LMA remains a strategic hub for innovation, process development, and governance alignment within the wider corporate structure.

LMA presents a compelling case study for exploring sustainability transitions in SMEs for several reasons. First, it stands out as a small enterprise with a long-standing, internally driven engagement in socially responsible practices. CSR at LMA has historically emerged organically from leadership commitment and organisational culture, rather than as a response to external pressures. Second, the company has begun to demonstrate an anticipatory orientation toward emerging ESG expectations. Its attention to stakeholder relationships, process optimisation, and governance alignment signal a willingness to formalize its sustainability approach. This positioning makes LMA a valuable case for exploring how established CSR values and practices can lay the groundwork for more formalized and structured ESG integration. Finally, LMA operates within a complex and increasingly regulated industrial ecosystem. As ESG expectation

intensify across global supply chains, financial markets, and procurement frameworks, SMEs like LMA are becoming critical sites of transformation. Their transition toward ESG in not merely technical or procedural but strategic and cultural. By focusing on LMA, this thesis investigates how existing CSR practices, internal resources and capabilities, and stakeholder pressures converge to shape ESG emergence in an SME context. In doing so, the case contributes to a broader understanding of how small firms navigate the space between voluntary responsibility and formal accountability.

5.2. CSR at LMA

This section helps answer sub-question 1: *What CSR practices are embedded at LMA, and how do they reflect alignment with ESG principles?*

To structure the analysis, this section draws on the ISO 26000 standard - an internationally recognised standard that outlines seven core subjects of social responsibility: organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development.

By examining internal documents, stakeholder perspectives, and interview data, this section traces the extent to which CSR is embedded in LMA's organisational operations and values. In doing so, it lays the foundation for assessing the firm's potential alignment with ESG principles in subsequent sections.

5.2.1. Organisational governance

A central component of CSR institutionalization at LMA lies in its approach to organisational governance, which ISO 26000 defines as the overarching system through which all responsibility domains are coordinated. From an ESG perspective, this domain maps onto the governance (G) pillar, which emphasizes transparency, accountability, ethical conduct, and strategic oversight. At LMA, governance is not merely a procedural requirement, but a cultural commitment grounded in shared values and leadership vision. The CEO emphasizes this ethos by stating: *"What I've been trying to build at LMA over the years is a positive image - not just externally, but also internally - by fostering a strong organisational culture and shared values. These shared values are, in my view, what makes the company different, special, and ultimately more successful."* This framing reflects two central principles of ISO 26000: value-based leadership and inclusive decision-making, while also embodying what Aguilera (2021) term a *distributed accountability ethos*, where responsibility emerges through culture as much as through structure.

Institutionally, LMA's commitment to responsible governance was formalized over a decade ago through the adoption of the ISO 9001 quality-management standard – well

before such certifications became industry standard or were externally demanded. The Process Excellence Specialist highlights this approach as an internal driver of continual improvement: *"These ISO standards and that cycle of continuous improvement – I think that's really the point, both in business and in life – always finding something we can do better. I believe that's the kind of energy that keeps us moving forward"*.

Far from being a box-ticking exercise, ISO 9001 has served as the infrastructural backbone for LMA's responsible governance, embedding principles of process reliability, risk-based thinking, and continual systemic review. As Process Specialist put it: *"ISO standards really give us a framework, a solid foundation for our operations, but also for socially responsible business."*

In recent years, LMA has built on this foundation by adopting strategic intelligence tools that help orient governance toward long-term ESG alignment. A comprehensive stakeholder analysis has been conducted to assess stakeholder salience, expectations, and influence, informing both SWOT analysis – used to evaluate strengths weaknesses, opportunities, and threats - and the risk register which catalogues emerging risks and stakeholder concerns. These tools underpin both the firm's *Sustainable Business Strategy* and its *Social Responsibility Policy*, the latter explicitly aligned with the seven ISO 26000 core subjects.

In line with dynamic capabilities framework Teece (2007), these systems reflect the firm's ability to sense evolving stakeholder expectations, seize sustainability opportunities, and prepare to reconfigure internal routines and processes once ESG disclosure becomes mandatory. Such anticipatory governance highlights the firm's strategic adaptability, even in the absence of legal requirements. This culturally embedded governance approach provides a robust foundation for LMA to advance towards formal ESG compliance and reporting frameworks, aligning internal values with external accountability.

While ISO 9001 prioritizes process quality, it does not assess the quality of governance outcomes. This is consistent with CSR's traditional focus on internal responsibility and operational discipline. This certification offers a strong procedural backbone that can be built upon, but future alignment with ESG will require complementary tools that can capture the effectiveness of governance practices in a more data-driven and externally verifiable way.

5.2.2. Labour and Human rights

Labour practices and respect for human rights are foundational pillars of both CSR and the Social (S) dimension of ESG. According to ISO 26000, socially responsible labour practices encompass fair treatment, health and safety, development and training, and workplace equity. At LMA, these principles are not approached as external obligations,

but as intrinsic commitments embedded in culture, codified in policy, and reflected in employee experience.

At the formal level, LMA's *Labour and Human Rights Policy* aligns with both international standards, namely the Universal Declaration of Human Rights, and Croatian labour legislation. The policy prohibits child and forced labour, supports freedom of association and collective bargaining, and actively protects against discrimination based on gender, ethnicity, religion, disability, sexual orientation, or any other personal characteristic. Furthermore, it commits to maintaining a respectful and harassment-free workplace, signalling a broader dedication to dignity and equality at work.

Beyond compliance, these commitments are supported by internal procedures and policies that structure everyday practice. For example, the *Professional Development Rulebook* affirms every employee's right, and responsibility, to pursue continuous learning and upskilling. This reflects company's belief that investing in human capital is both ethical and strategically valuable. Further internal policies covering diversity, privacy protection, and non-discrimination reinforce ethical standards and help cultivate a workplace grounded in trust, fairness, and opportunity.

These formal policies are not merely procedural safeguards but actively shape the lived experience of employees, embedding CSR principles into daily work practices and organizational culture. Employee satisfaction, inclusivity, and perceptions of fairness serve as crucial indicators of social sustainability, aligning closely with the S pillar of ESG frameworks. By fostering an environment where diversity is valued, professional development is encouraged, and workplace dignity is protected, LMA strengthens its internal social capital, which in turn enhances organizational resilience and reputation. This alignment between policy and practice underscores how CSR commitments translate into strategic social outcomes essential for ESG readiness.

Importantly, these commitments are reinforced by employee perceptions regarding what constitutes a fair and responsible workplace. Data from internal questionnaire shows that employees place high importance on safe and pleasant working environment, respect for workers' rights, and employment security (*Figure 2)*. The consistency of the responses suggests that all the principles on which they were questioned are not only normatively valued but are considered as standards within the company.

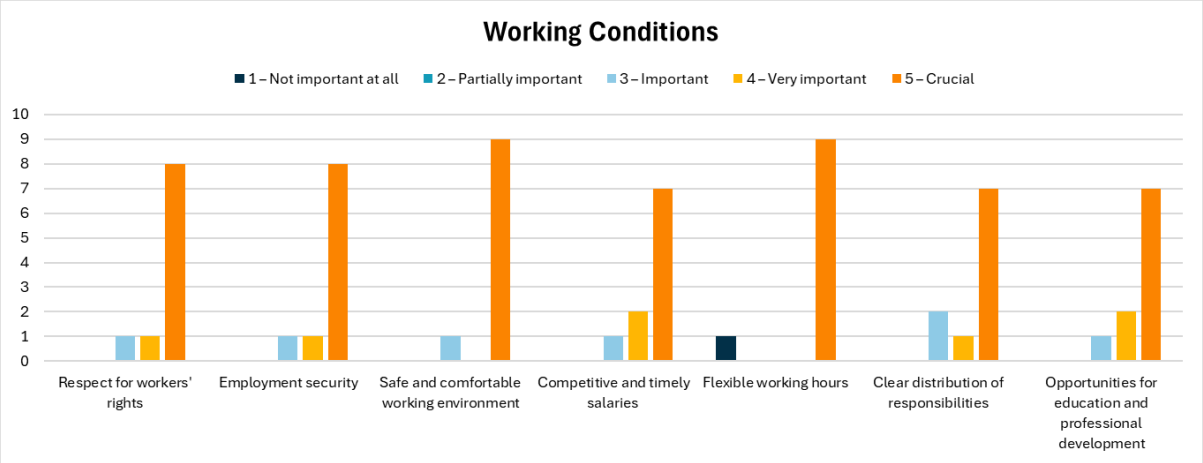

Figure 2. Employees: Importance of working conditions

Interview data adds further weight to the sense that these principles are not only recognized but also experienced. A company manager reflected on employee retention as a meaningful indicator of satisfaction and organizational health: *"At Liburnia, a significant number of employees started their careers here and chose to stay for many years. To me, that speaks volumes about the company and how satisfied people are with the work environment and conditions."* Moreover, one manager added: *"What we can offer, aside from financial compensation, is flexibility",* suggesting that non-financial aspects such as work-life balance are actively valued and integrated into the firm's employment offering. An employee with a lot of working experience observed *"I can say nothing but the best. This is my fourth or fifth firm, and it is completely different from all the others."* A member of the LGBTQ community underlined the importance of safety and inclusion, stating: *"It's very important - here I genuinely feel at home."*

Together these voices paint a consistent picture of an inclusive and supportive workplace. They illustrate how CSR commitments to labour rights, equity, and inclusion are not only formalised in documents but actively operationalised in the organisational culture, as one manager stated: "*Gender equality – Liburnia is very good in those terms, also there is definitely no pay discrimination."* The data in this section reflect a high degree of alignment between what employees value, what the company formally commits to, and what is observed in day-to-day workplace culture.

5.2.3. The environment

Environmental responsibility, a key pillar of both ISO 26000 and the Environmental (E) dimension of ESG, is increasingly embedded in LMA's daily operations and strategic outlook. This commitment is formally codified in LMA's *Code of Ethics*, which states: *"The company continuously takes care of environment and therefore all employees are obliged to respect environmental standards and applicable regulations in their work, to treat all types of waste correctly and responsibly, and to use raw materials rationally."* Although the firm's core business is office-based logistics, both leadership and staff

approach sustainability with intentionality. As the CEO noted, *"Whenever we think about sustainability, we realise that our impact isn't huge, but whenever we spot a potential negative impact, we try to shrink and eliminate it."*

This ethos translates into concrete, habitual practices. Waste separation, elimination of single-use plastics, and minimal printing are standard in the office. *"Printing is reduced to a bare minimum - something we now measure and compare,"* explained one manager. Energy-saving behaviours, which include switching off devices when not in use and using LED lighting, have become routine. These actions are reinforced by the physical infrastructure: *"The office we built and operate from is energy efficient. At the time it was constructed, it followed the latest ecological standards,"* reflected the CEO.

Importantly, environmental awareness is not enforced - it is internalized. As the CEO explained: *"At Liburnia Maritime Agency, sustainability ultimately comes down to awareness - ensuring that through our behaviour, we contribute to reducing our footprint, and that we monitor our processes so that we can reduce negative impacts wherever we have the opportunity."* This mindset has permeated the organizational culture, shaping employee attitudes and routines. One employee echoed this sentiment, reflecting on how workplace practices translate into broader behavioural change: *"If we adopt some of these principles at work, like waste sorting, why wouldn't we do the same at home?"*

LMA's environmental commitment also extends beyond internal practices. The company is certified as a Plastic-Free Office and is a member of the Clean Seas initiative, signalling its alignment with ocean protection and wider environmental goals. These affirmations, while voluntary, reflect proactive leadership and values-driven culture that aligns with international environmental norms.

In line with its maturing sustainability approach, LMA is now preparing for Scope 1 and 2 emissions monitoring, laying the groundwork for structured carbon accounting. This step marks an important shift toward outcome-based environmental performance. Recent upgrades to the company fleet - including two hybrid vehicles and an electric bicycle - further signal intent to decarbonize. Staff express enthusiasm for extending this transition, with one manager stating: "It would be ideal to have more hybrids." However, infrastructural limitations persist: "We don't have private parking or EV chargers," noted another, pointing to the need for broader collaboration. Yet even this is framed constructively: "Why not cooperate with the Port Authority to install chargers and make the port greener?"

Among all environmental initiatives, BackToBlu (BTB) stands out as the most emblematic of LMA's environmental ethos. Every interviewee, across organizational levels, brought up BTB unprompted - highlighting its central role in the company's identity. As one manager shared, "BTB is a commendable initiative, well-conceived as an idea." But it is much more than an idea. BTB is a living initiative rooted in community engagement, education, and

collective action. It includes beach cleanups, youth ambassadorships, partnerships with NGOs, and the production of purpose-driven apparel, with all proceeds directed to environmental causes. “Through BTB, we try to give something back to the community, where we’ve also, in some way, taken,” one team member reflected. The initiative embodies LMA’s belief that the sea is not just a resource, but a shared responsibility. In a world where sustainability is often symbolic or superficial, BTB offers a grounded and action-oriented model. It reflects not just leadership vision, but organizational alignment. Its resonance across all interviews suggests deep internal ownership and cultural embedment - hallmarks of CSR institutionalization.

These operational and community environmental initiatives demonstrate how LMA’s CSR practices align with and anticipate formal ESG environmental standards, reflecting a shift from informal awareness to structured sustainability management. The company’s move toward Scope 1 and 2 emissions monitoring reflects an important step toward formal carbon accounting and measurable environmental performance. Combined with investments in greener fleet technology and active participation in environmental partnerships, LMA demonstrates how SMEs can integrate environmental sustainability into their strategic development - balancing a strong cultural commitment with emerging regulatory demands.

5.2.4. Fair operating practices and consumers

Fair operating practices and responsible client engagement are at the heart of LMA’s reputation as a trustworthy service provider. Operating in highly competitive and trust-dependent logistics market, LMA views fairness and integrity not only as ethical obligations but as a strategic imperative. A long-standing client captured this orientation well: *“In sustainability today the goal is no longer to point fingers when something goes wrong, it is to collaborate and improve the whole system. We do not cut ties – we all want to become better together.”*

LMA’s approach to its business partners, clients and suppliers is grounded in the principles of transparency, long-term collaboration, and ethical accountability. The company’s *Anti-bribery and corruption policy,* along with its *Sanctions policy* clearly defines expectations around neutrality, integrity, and the prohibition of undue influence - setting boundaries on gifts, favouritism, and other forms of non-transparent conduct. These safeguards ensure that business relationships are governed by fairness and trust, rather than opportunism. Additionally, annual supplier evaluations include assessments of compliance with ISO 14001 and reviews of labour practices, underscoring that ethical conduct is not only expected internally but also across the value chain. This reflects LMA’s commitment to responsible procurement, a key element of CSR, where suppliers are selected and maintained based not solely on cost or efficiency, but also on safety, legal compliance, and alignment with broader sustainability values. The emphasis on long-term relationships and transparent communication further supports the firm’s

positioning as a reliable and ethically driven logistics provider, reinforcing stakeholder trust and operational continuity.

Yet the ethical positioning of the company is not without challenges. As the CEO noted: *"We face unfair competition. Some companies, especially in the trucking sector, have significantly lower operating costs than us because they pay people under the table."* This statement highlights LMA's refusal to compromise ethical standards for more business opportunities and therefore financial benefit.

On the client side, LMA emphasizes transparency and continuous improvement. Customer satisfaction is managed not only through tailored service but also through a register of nonconformities, which systematically tracks feedback, audits, and corrective actions. This mechanism ensures that learning from mistakes is institutionalized, contributing to long-term client trust and service quality. Such feedback loops reflect the firm's proactive approach to stakeholder relations and a central component of CSR in service-based industries.

By institutionalizing fairness, transparency, and accountability throughout its procurement and client relations, LMA not only safeguards ethical business conduct but also strengthens its governance integrity and social responsibility - key pillars underpinning ESG frameworks. These practices cultivate stakeholder trust and set a foundation for credible ESG reporting and external validation.

5.2.5. Community engagement

Community involvement and development are essential components of social responsibility, especially for SMEs embedded in local contexts. According to ISO 26000, meaningful engagement goes beyond stakeholder consultation and entails proactive contributions to local well-being through education, solidarity, and shared value creation. At LMA, these principles are not only embraced but also put into practice through concrete initiatives that reflect the company's deep connection to its coastal context.

The most visible and dynamic expression of this commitment is the BackToBlu initiative. While primarily framed around environmental action, BTB functions as a broader platform for civic engagement, employee participation, and intergenerational education. It brings together diverse actors – including employees, partner organisations, schools, local community – through collaborative, hands-on efforts. One such example Is LMA's formal partnership with Sailing Club Galeb, in which BTB supplies organic-cotton apparel and conducts environmental workshops, while club members coordinate regular beach clean-ups. Another example is an action in Kostrena, where dozens of volunteers mobilised to remove waste, and specifically cigarette butts, and raise environmental awareness – an effort that reinforced the message that change begins with us.

This responsiveness to community needs was particularly evident during the COVID-19 pandemic, when LMA produced and donated reusable protective masks to the Children's Hospital in Rijeka, demonstrating an ability to pivot resources for the public goods in times of crises.

Internal attitudes strongly support these external actions. In the employee questionnaire, 77,8% of respondents indicated that they expect LMA to actively engage in community initiatives and support the local area (*Figure 3*). This alignment between internal expectations and company practice reinforces the idea that community involvement at LMA is not peripheral activity, but a shared value and cultural norm.

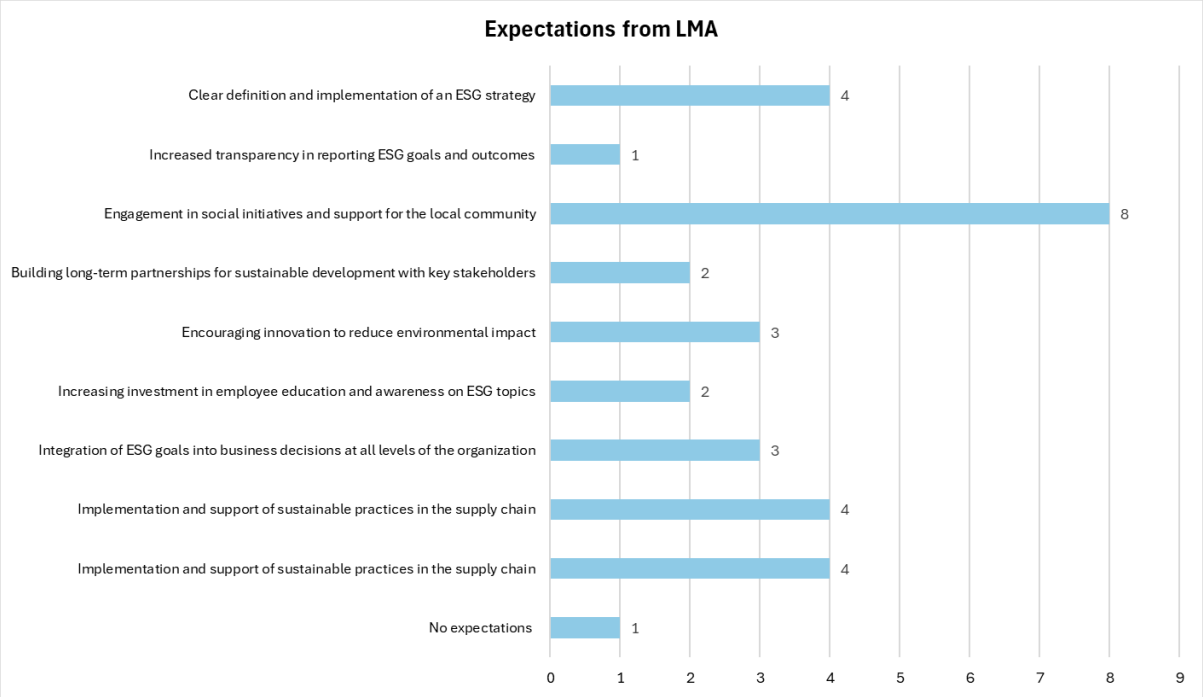

Figure 3. Employees: Expectations regarding ESG practices at LMA

Ultimately, LMA's embedded community engagement, exemplified by BTB, not only enhances local social cohesion and environmental stewardship but also builds critical social legitimacy and trust that are essential for sustainable business success. For SMEs, where resources for formal ESG compliance may be limited, such authentic, place-based CSR initiatives provide a meaningful pathway to meet evolving stakeholder expectations and integrate ESG principles into corporate identity and practice.

5.3. Stakeholder influence

This section addresses sub-question 2: *How do stakeholder expectations and pressures influence ESG orientation in SMEs?*

Grounded in Stakeholder Theory, it explores how stakeholder relationships shape the direction, pace and depth of sustainability-related change at LMA. As Freeman (1984) argues, firms operate within a network of relationships, and strategic success depends on their ability to respond to and align with the expectations of key actors. These stakeholder pressures range from normative values and relational expectations to market dynamics and regulatory demands. Importantly, they are not simply external obligations but can act as relational triggers of ESG readiness, requiring continuous dialogue and adaptation between the firm and its stakeholders.

5.3.1. External actors

While LMA's CSR practices have been internally motivated and culturally embedded - "We don't have to have CSR, and no one is asking that from us, but we decided to have it for ourselves" (CEO) – the company's emerging ESG orientation is shaped far more explicitly by external stakeholder pressures. These pressures are exerted primarily by clients, suppliers, and banks, who influence the company's trajectory toward more formalized, measurable, and externally verifiable sustainability practices.

Among external actors, clients are the most prominent drivers of ESG engagement at LMA. Survey data reveal that all client respondents reported strong familiarity with ESG concepts, and rated ESG as either "very important" or "crucial" in evaluating business relationships (Figure 4). Their expectations extend beyond awareness to demands for transparency in ESG reporting, integration of ESG objectives into strategic decisions, and sustainability throughout the supply chain.

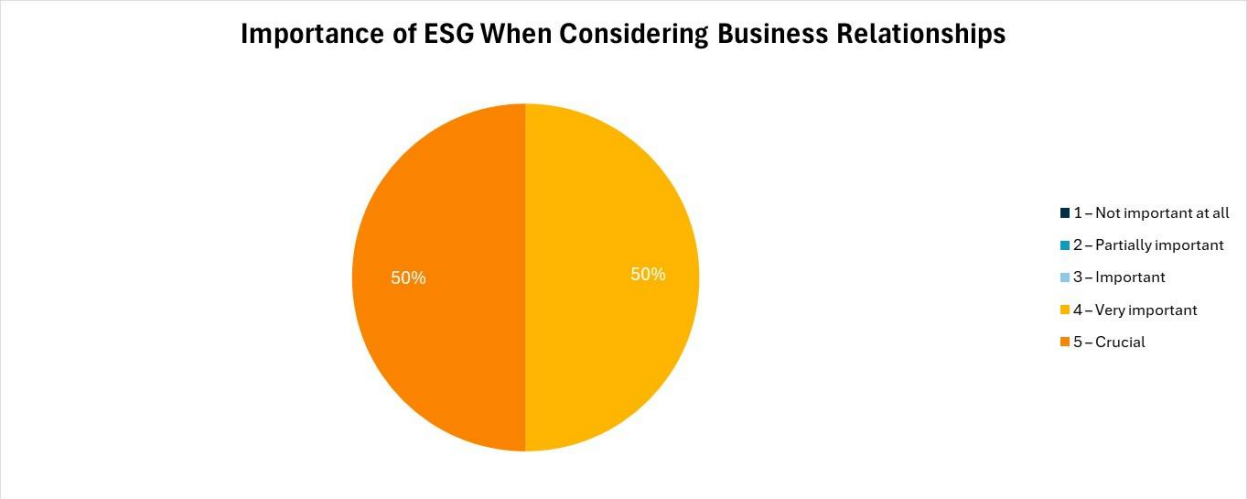

Figure 4. Clients: Perceived importance of ESG in considering business relationships

When asked to assess the importance of specific ethics and responsibility-related requirements, clients assigned uniformly high importance. Ethical business conduct and sustainable business practices were rated "crucial" by all, while the remaining two categories split evenly between "very important" and "crucial" (Figure 5).

Figure 5. Clients: Perceived importance of requirements

These evolving client demands reflect a broader shift in procurement logic: ESG criteria that were once differentiators have now become baseline requirements. This evolution was underscored by one client who described a shift in tender evaluations: "*Clients are the ones who, through their questions and scoring in tender requirements, push us to research, stay informed, beyond what may currently be required by law*" and *"It used to be maybe 1%, and now [ESG criteria] are already around 15–20%."*

Such statements reflect the institutionalization of ESG serves both as a gateway to market access and a mechanism for building trust, legitimacy, and long-term viability - core themes in Stakeholder Theory's focus on mutual value creation (Freeman, 1984; Hörisch et al., 2014). *"(As a large firm that is required to report on ESG) We are responsible for everything happening in the supply chain"* notes one client, highlighting how ESG norms cascade downstream – placing implicit pressure on SMEs like LMA to evolve in step with larger actors. This aligns with Hörisch et al.'s (2014) integrative view of stakeholder theory, which recognises that firms respond to both strategic and ethical demands from stakeholders.

In contrast, suppliers demonstrate a more mixed ESG posture. While most suppliers rated ESG as "important" in business relationships (Figure 6), variability in ESG maturity is evident, with some suppliers less engaged or less familiar with formal ESG practices.

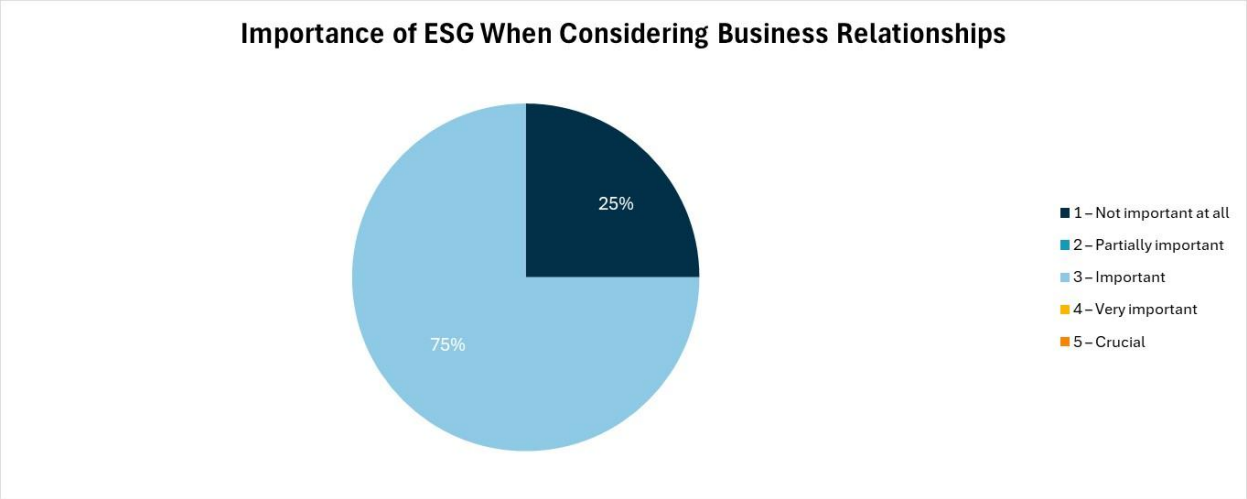

Figure 6. Suppliers: Perceived importance of ESG in considering business relationships

However, survey responses related to ethics and responsibility show general alignment with ESG values. Ethical business conduct was rated "crucial" by 75% of suppliers and "very important" by 25%. Sustainable business practices and sustainability reporting received balanced ratings between "very important" and "crucial," while respect for workers' rights had one "important" rating, indicating slightly lower emphasis on social responsibility compared to clients (Figure 7).

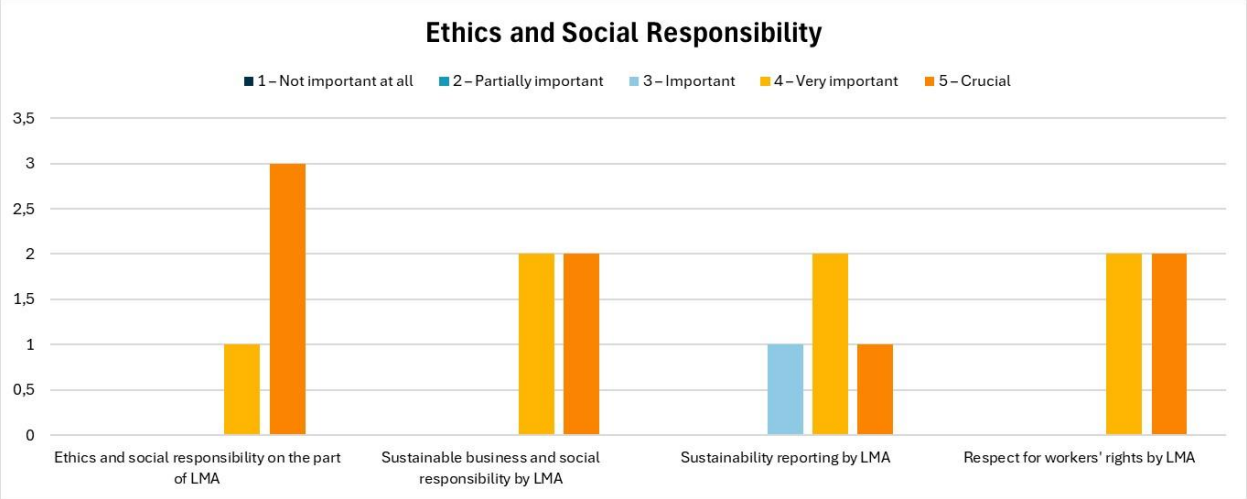

Figure 7 Suppliers: Perceived importance of requirements

These findings creates both a gap and an opportunity: LMA occupies a pivotal relational position where it can bridge client expectations with supplier capabilities. Indeed, suppliers show an openness to co-evolve. All survey respondents expressed support for long-term partnerships for sustainable development, and half endorsed greater transparency in ESG reporting and sustainable supply chain practices. This positions LMA not only as a passive recipient of ESG demands, but as a relational enabler of sustainability within its own procurement ecosystem. Through its annual supplier evaluations, which assess ISO 14001 compliance and labour standards, LMA already

enforces ethical and environmental expectations, indicating a two-way influence model where ESG flows both upstream and downstream.

In addition to clients and suppliers, banks are emerging as key ESG stakeholders, particularly in linking sustainability with financing incentives. For SMEs like LMA, where ESG reporting is not yet legally mandated, access to favourable credit terms increasingly depends on sustainability alignment. One client explained that their own firm's ESG journey began not with regulation, but with pressure from financiers: *"It started with finance and HR, because the banks and stock exchange required their own ESG criteria. So we had to pay attention to how to meet those requirements."*

Similarly, LMA's Process Specialist highlighted the growing financial incentive for ESG alignment: *"Banks are also offering more favourable loans for green initiatives and the like."* This dynamic reflects a broader trend where ESG is not just evaluated by regulators or markets but embedded into financial decision-making through risk assessments and funding criteria. As one interviewee noted: *"I think banks could really influence the SME market to start moving in that (ESG) direction."* In LMA's case, this highlights a compliance-driven pathway to ESG where the driver is the need to meet financial and procedural expectations tied to capital access.

5.3.2. Internal actors

While external actors exert influence through procurement standards, financing conditions, and supply chain expectations, the actual uptake and operationalization of ESG at LMA is driven internally. Internal stakeholders - especially leadership - play a pivotal role in interpreting ESG not as an external burden but as a strategic opportunity aligned with the company's long-standing values and routines.

At the centre of this orientation is the CEO, whose leadership has historically grounded CSR in ethical conviction rather than compliance. This ethos extends into how ESG is framed today. Rather than treating it as a regulatory burden, he views it as a tool to raise professional standards and reduce malpractice within the industry. As he puts it: *"The stricter the standards, the easier it is for companies like ours; ESG can clear out unfair competition. ESG should eliminate that. Level the playing field, and then the best operator wins."*

This perspective positions ESG not only as a mechanism for responsible conduct but also as a strategic equalizer that rewards firms already operating with integrity. It reflects what Hörisch et al. (2014) describe as the normative dimension of stakeholder salience, where values and legitimacy guide organisational response, particularly in SMEs where leadership is personalised and culturally influential (Sen & Cowley, 2012).

This awareness is not limited to top management. Employees also anticipate that ESG will become more formalized. Internal questionnaire data revealed that staff expect LMA to clearly define and implement an ESG strategy, increase transparency in reporting, and

integrate ESG into decision-making at all levels. The most frequently selected expectations from employees included: clear definition and implementation of ESG strategy, integration of ESG goals into all business decisions, increased transparency in reporting ESG outcomes, support for sustainable practices in the supply chain, greater investment in ESG-related employee education (*Figure 3*)

These responses point to proactive employee alignment with emerging ESG demands and reinforce the finding that values of responsibility and transparency are widely shared internally - not just confined to management.

Together, these internal dynamics demonstrate that LMA is not only responsive to stakeholder pressures but also internally motivated to evolve. Leadership interprets and amplifies external demands, while employees validate and support ESG integration as a natural extension of existing CSR commitments. This internal alignment strengthens the firm's capacity to transition from value-based responsibility to structured ESG readiness.

5.4. Internal enablers: resources, capabilities, and culture

While the previous section explored who influences LMA's sustainability trajectory, this section turns to what enables the company to act on these pressures. Specifically, it addresses Sub-question 3: How do internal resources and capabilities enable SMEs to formalize and operationalize ESG practices?

Grounded in the RBV and its dynamic capabilities extension (Teece, 2007), this section analyses the internal resources and systems that support LMA's readiness for ESG integration. According to RBV, competitive advantage arises from resources that are valuable, rare, inimitable, and organisationally embedded (J. Barney, 1991). In the ESG context, such resources include not only financial and technical assets but also intangible factors like culture, leadership, and employee commitment. Dynamic capabilities further extend this view by focusing on how firms' *sense*, *seize*, and *reconfigure* resources in response to changing environments (Teece, 2007). At LMA, several enablers meet these criteria.

Unlike many SMEs where limited budgets pose a structural constraint, LMA benefits from strong financial health and a willingness to invest in sustainability. As one manager explained: *"The financial capacity exists, and I think Liburnia as a group is absolutely willing to invest in that area, so that's not an issue."* This financial resource enables strategic flexibility whether in implementing ESG-oriented tools, engaging in external partnerships, or upgrading operational infrastructure.

LMA's longstanding ISO certifications - ISO 9001 (quality), ISO 14001 (environment), and ISO 45001 (health and safety) - signal a deep organisational commitment to formalised, continuous improvement. Importantly, these were adopted *well before* external pressure

made them industry norms. One manager reflected: *"That's what we had with quality, environment, and health – we weren't thinking about what it would bring us in the short term, but we were thinking long-term."* These systems form an operational backbone for monitoring, assurance, and stakeholder engagement - essential precursors to ESG reporting and governance. They also reflect *seizing* and *reconfiguring* capabilities by enabling the firm to anticipate, document, and adapt to stakeholder expectations.

LMA's human capital is a critical asset. Employees are described internally as "the most important resource," and CSR-aligned behaviours have become ingrained in workplace culture. These behaviours are not enforced but internalized. As Process Specialist noted: *"In Liburnia, we really have open doors when it comes to education. I've personally completed a lot of workshops, trainings, and even ESG academies - so I can say I've acquired some real knowledge."* Such investment in learning supports LMA's capacity to *sense* changes in the ESG landscape and prepare internal competencies accordingly.

Leadership, particularly the CEO, functions as a decisive enabling resource. His long-standing values and ethical orientation are not only visible in formal strategy but operationalised through initiatives like ISO certification, Clean Seas partnership, and BTB. His framing of ESG combines both ethical conviction and competitive pragmatism: *"The higher the industry standards, the easier it is for companies like ours to work - it's an opportunity to eliminate bad competition*." Because this commitment is historically grounded and closely tied to individual leadership vision, it meets the RBV's criteria of rarity and inimitability.

Organisational culture at LMA also enables dynamic responses to change. Employees describe a participatory environment where management is open to proposals: *"Management is very open to suggestions from employees."* Such responsiveness enhances trust and internal legitimacy, fostering a climate where change is co-created rather than imposed. One manager traced this mindset back to the company's core business model: *"That kind of thinking comes from our project-based work - rarely does a project go completely smoothly. There's always some situation you have to respond to. I think we've learned from that - to react and maintain that kind of attitude."* This attitude, rooted in real-time problem solving, illustrates strong *reconfiguring* capabilities: the ability to adjust internal routines in response to uncertainty or evolving ESG requirements.

In sum, LMA's internal enablers span tangible assets (financial and system infrastructure) and intangible capabilities (leadership, culture, routines) that together create a strong foundation for ESG transition. When viewed through the lens of RBV and dynamic capabilities, these elements constitute a rare and strategic resource base that equips the company to meet and shape sustainability expectations in a rapidly evolving external landscape.

5.5. From CSR to ESG: readiness and strategic pathways

This section synthesizes key findings from the previous chapters to address the sub-question 4: *How is ESG transition emerging at LMA and what internal dynamics shape its strategic readiness?*

Drawing on the conceptual framework introduced in Chapter 3, this section explores how LMA's transition is shaped by the interplay of three interdependent dimensions: embedded CSR routines, stakeholder pressures, and internal resources and capabilities.

As detailed in Section 5.2, LMA exhibits strong CSR institutionalization across governance, labour rights, environmental management, fair operating practices, and community involvement. These practices have long been embedded in company routines, shaped by leadership values and supported by a participatory organisational culture. Employees consistently describe sustainability actions as natural and habitual. As one employee explained, *"Everything is very well planned here, with a long-term outlook,"* and another added, *"Liburnia is completely different from other companies."* Such sentiments reflect the company's distinct culture of responsibility.

Importantly, CSR at LMA is not reactive or compliance driven. As the CEO emphasised, *"We don't have to have CSR, and no one is asking that from us, but we decided to have it for ourselves."* This framing captures the normative origins of CSR at LMA, rooted in ethical convictions and shared values rather than market or legal demands. Practices such as employee development, stakeholder inclusion, and BTB initiative demonstrate that CSR is lived, not just proclaimed.

However, while CSR emerged internally, ESG momentum is increasingly externally driven. Section 5.3 showed that clients, banks, and to a lesser extent, suppliers are introducing new expectations around ESG performance. Clients, in particular, have moved from general awareness to precise procurement demands. One client explained: *"Clients are the ones who, through their questions and scoring in tender requirements, push us to research, stay informed -beyond what may currently be required by law."* This observation strongly resonates with LMA's position in the supply chain, where its own competitiveness depends on anticipating and meeting these cascading ESG expectations.

Shifts in procurement scoring illustrate this trend: *"It used to be maybe 1%, and now ESG criteria already account for 15–20%."* As one client stated, *"As a company required to report on ESG, we are responsible for everything in the supply chain."* For SMEs like LMA, this institutionalization of ESG at higher tiers creates indirect but growing compliance and reporting pressure.

Nonetheless, LMA does not approach these shifts passively. One manager stated, *"When our clients set ESG requirements, I believe we'll be the readiest in our industry to respond."* Echoing this, the CEO asserted: *"If a client tells us we have to do this or that to keep working together, we can say, 'We already do that. Here you go.'"* This anticipatory framing demonstrates LMA's ability to sense and seize sustainability demands - a hallmark of dynamic capabilities (Teece, 2007).

Broader institutional dynamics reinforce this momentum. As one interviewee observed in relation to Croatia's ESG maturity, "*I'd say we're at a moderate or even lower level (o,"* but also noted, *"In the past year, there's been a real surge in sustainability conferences and education."* This suggests that ESG integration is gaining systemic traction, not just bilateral relevance.

LMA's readiness for ESG is further supported by robust internal capabilities and resources (*Section 5.4)*. Financial strength, ISO certifications, stakeholder mapping tools, and a resilient organisational culture form the infrastructural bridge from CSR to ESG. These systems already embed process discipline, traceability, and continuous improvement.

LMA's human capital and participatory culture are equally vital. Employees not only express a sense of ownership over sustainability issues, but frequently propose their own ideas, suggesting a culture of bottom-up innovation. One employee noted, *"We really have open hands when it comes to education,"* and another said, *"I've attended a lot of workshops and ESG academies, so I do have some knowledge."* These comments reflect not just training uptake, but internalisation of ESG themes.

Leadership is the most decisive internal enabler. The CEO explicitly links ESG to long-term competitiveness and ethical legitimacy: *"The stricter the standards, the easier it is for companies like ours. ESG should level the playing field, so the best operator wins."* His strategic framing, active role in initiatives like BT, and emphasis on integrity position him as a rare and inimitable organisational resource. One manager concluded: *"so in the end, ESG is an added value to the firm."*

Further evidence of readiness lies in the internal alignment between leadership vision and employee expectations. As *Figure 3* shows, a significant share of employees expects a clearly defined and implemented ESG strategy, as well as greater transparency and integration of ESG goals into operations.

Similarly, in *Figure 8,* sustainable and responsible business conduct, environmental education and awareness, and sustainable resource management received most votes. This convergence between strategic direction and workforce expectations reinforces what Jamali (2022) terms vertical coherence – an essential enabler in successful sustainability transition.

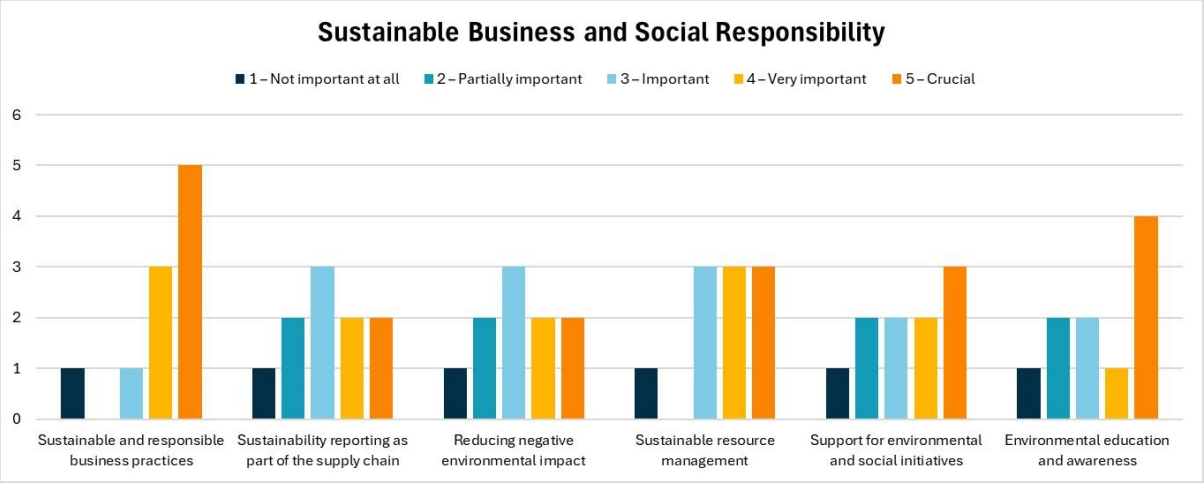

Figure 8 Employees: Perceived importance of requirements

Taken together, these dynamics place LMA in an advanced position on the CSR-ESG continuum. Many ESG elements are already in place: embedded values, formal systems, stakeholder sensitivity, and organisational alignment. What remains is formalising practices through standardised reporting, external validation, and outcome-based measurement. In Baumgartner (2013) typology, LMA exhibits a *strategic sustainability posture*: where responsibility is embedded in strategy but not yet fully aligned with compliance-based ESG frameworks.

Thus, LMA can be described as ESG-prepared but not fully ESG-integrated. Its transition reflects a process of evolution - building on a rich CSR legacy, shaped by growing stakeholder expectations and supported by internal capabilities. Moving forwards, the challenge lies in translating culture into metrics, values into verifiable practices, and vision into standardised reporting. With the foundations already in place, the pathway ahead is both credible and achievable.

5.6. Barriers and opportunities

While LMA demonstrates a strong foundation for ESG integration, the transition from value-driven CSR to structured ESG frameworks is not without its constraints. This section identifies the key barriers that may hinder the institutionalization, as well as the latent opportunities that could accelerate and strengthen the process. These dynamics reflect the transitional tensions typical in SMEs, where motivation often outpaces formal capacity.

One major barrier lies in the absence of clearly defined ESG roles and dedicated accountability structures. As the CEO put it, *"To do things properly, you need someone dedicated to it. Without an ESG officer, I think we'll have problems keeping up with the standards and staying compliant."* This reflects a common SME challenge: sustainability

responsibilities are informally, usually added onto existing roles, which limits the potential for consistent tracking, benchmarking, and reporting over time.

This organisational gap is compounded by uncertainty in the regulatory landscape. Although LMA demonstrates readiness to align with ESG expectations, it lacks clear, actionable guidance. One manager noted: *"The real issue is understanding what the requirements actually are. If we knew exactly what needed to be done to meet certain standards or client expectations, we would adapt to it."* This ambiguity slows down institutionalization and increases reliance on external consultants and fragmented sources of ESG knowledge - what one interviewee described as a flood of *"hundreds of conferences, consultants, and frameworks, but no one trying to simplify it and just say: do this, this, this."*

This lack of regulatory clarity exacerbates internal limitations. The challenge LMA faces is not one of willingness, but of readiness: a gap between strong normative commitment and the procedural infrastructure needed to meet ESG expectations. While leadership and staff display a clear drive to act, ESG demands a higher degree of formalisation - quantifiable indicators, third-party assurance, and standardised disclosures - elements that current systems only partially support. This tension reflects a broader SME paradox: high ethical intent constrained by limited structural capacity.

Cultural perceptions further influence the pace of ESG integration. Several interviewees observed that resistance often stems from unfamiliarity rather than opposition. As one employee explained, "*Sometimes there's pushback because people don't know what ESG even means. They don't realize they're already doing many of those things*." This disconnect can lead to hesitation, especially when ESG is perceived primarily as externally imposed rather than organically connected to existing values and practices.

Nevertheless, LMA is already working to reframe these constraints as catalysts for change. The CEO's perspective positions ESG not as a burden, but as a strategic opportunity: *"We are ready for ESG, and we shouldn't be afraid of it."* This proactive stance is echoed across the organisation. The Process Specialist affirmed: "*We always try to turn threats into opportunities... I hope this momentum doesn't disappear overnight, but we believe we're going in the right direction*."

This mindset is reinforced by a broader understanding that ESG implementation is not a solitary pursuit. As one client emphasized: *"Every part of the chain is valuable, and we need to maintain good relationships,"* highlighting the need for shared accountability and collaborative learning across the value chain. LMA's view of ESG as a relational, evolving process reveals maturity that strengthens both its internal resilience and external positioning. As one employee reflected *"The lack of something is exactly what makes it an opportunity for improvement and progress."*

Critically, LMA appears well-timed in its ESG trajectory. While external regulations and market pressures are still taking shape, its early investments in CSR and sustainability culture provide a platform for forward-looking adaptation. This timing creates strategic space to experiment, build internal capabilities, and anticipate stakeholder expectations - potentially positioning the firm as a sustainability frontrunner in its sector.

In summary, LMA's ESG pathway is shaped by real but solvable barriers - unclear roles, regulatory ambiguity, and system-level gaps. Yet these are counterbalanced by leadership vision, cultural coherence, and adaptive organisational mindset. For SMEs, the LMA case underscores that ESG implementation is not only about responding to external demands but also about building internal systems that transform responsibility into resilience. With targeted investment in education, process clarity, and role definition, current obstacles can be converted into meaningful levers for sustainable performance and leadership.

6. Discussion

6.1. Summary of the key findings

This study set out to explore how embedded CSR practices, stakeholder pressures, and internal capabilities collectively shape the strategic transition toward ESG in SMEs, using Liburnia Maritime Agency (LMA) as a case study. The central research aim was to understand how values-driven CSR in a small firm can evolve into structured ESG in response to changing institutional and market conditions.

Findings reveal that LMA institutionalized a mature CSR culture, evident in its governance structures, labour practices, environmental awareness, and community engagement. These practices are not externally imposed but are rooted in internal norms, codified through ISO standards and reflected in leadership ethos cantered on responsibility, integrity, and long-term vision. CSR at LMA is not symbolic but routine and behaviourally embedded, supported by internal alignment across departments and roles. While formal ESG frameworks are not yet in place, many CSR practices mirror ESG dimensions, indicating a high degree of preparedness.

The study also identifies increasing pressure from external stakeholders – particularly clients and financial institutions – as a key driver of strategic engagement. Their expectations have evolved from general ethical standards to quantifiable ESG metrics and disclosures. Internally, these pressures are actively interpreted by leadership, who perceive ESG not as a regulatory burden but as a strategic opportunity to differentiate and future-proof the company.

Several internal enablers support this readiness: established operational systems (e.g., ISO, audits), trust-based stakeholder relationships, a participatory and learning-oriented culture, and visionary leadership. These capabilities form the basis of what Teece (2007) terms dynamic capabilities, enabling the firm to sense environmental shifts, seize strategic opportunities, and reconfigure internal routines to align with emerging ESG standards.

Although the transition remains in progress, LMA demonstrates clear ESG potential. Barriers which include undefined ESG roles, limited reporting mechanisms, and regulatory uncertainty persist stem from structural constraints rather than attitudinal resistance. While the organisation's high normative motivation is evident, the next step lies in formalising this intent through systematic, trackable processes.

6.2. Interpretation of results

The case study reveals a strong alignment between LMA's embedded CSR values and its emerging ESG orientation. This alignment is path dependent rather than coincidental, suggesting that long-standing commitments to quality, employee welfare, environmental responsibility, and ethical governance serve as a fertile ground for ESG integration. These findings support prior research framing CSR as a behavioural antecedent to ESG (Jamali et al., 2022; Spence, 2014).

Crucially, the data confirms that stakeholder expectations, particularly from clients embedded in ESG-regulated supply chains, are a decisive influence. Consistent with Martiny et al. (2024) and Kauffmann and Cusmano (2022), the findings indicate that SMEs are increasingly "pulled" into ESG trajectories through relational accountability rather than legal mandates.

However, the study also highlights tensions between CSR and ESG. CSR at LMA is informal, value-based, and deeply rooted in culture, whereas ESG requires procedural formality, standardised disclosures, and external validation. This gap reflects a common pattern in SMEs, where motivational readiness outpaces structural capacity (Setyaningsih et al., 2024; Figueiredo et al., 2025).

Importantly, ESG momentum at LMA is not only externally driven. Internal enablers such as financial stability, participatory culture, and ISO-based routines underpin the firm's ability to translate values into strategy. The data reflects all three stages of dynamic capabilities: sensing stakeholder needs, seizing strategic ESG opportunities, and reconfiguring internal processes to respond. Teece's (2007) framework proves to be a valuable analytical lens for understanding ESG adaptability in SME contexts.

Despite these strengths, ESG at LMA remains partially codified. The main obstacles are not ideological but institutional: ambiguity in regulatory expectations, fragmentation in ESG knowledge sources, and a lack of tailored tools for SMEs. These constraints mirror broader critiques of ESG frameworks as overly complex and inaccessible for smaller firms (Martiny et al., 2024). LMA is at a turning point – its ethos is aligned with ESG principles, but it is still in the process of building the infrastructure needed to transition from informal practices to formal reporting.

6.3. Implications and contributions of the study

This study makes carries both theoretical and practical implications. Theoretically, it shows that CSR and ESG are not opposing ideas, but rather part of a shared journey toward a deeper sustainability engagement. The case study provides empirical support for the conceptual bridge between CSR values and ESG systems, particularly when supported by dynamic capabilities and stakeholder alignment.

It also offers a valuable extension of the RBV (J. Barney, 1991) and dynamic capabilities framework (Teece, 2007) by demonstrating that intangible resources can function as strategic assets when utilized for ESG. Furthermore, it reinforces Stakeholder Theory's proposition that ESG emergence is increasingly tied to expectations of transparency and legitimacy from relational partners rather than as a response to regulation (Freeman, 1984; Hörisch et al., 2014).

From a practical standpoint, the research demonstrates that SMEs do not require large-scale transformations to pursue ESG. Instead, they can emerge through incremental evolution, provided that internal alignment between leadership, culture, and operational systems are in place. For policymakers and standard-setter, this highlights the need for SME-sensitive tools, such as simplified disclosure, phased reporting roadmaps, and capacity-building initiatives.

More broadly, the findings challenge the dominant narrative that ESG is the exclusive domain of large corporations. They show that SMEs, too, can and must be strategic actors in sustainability, leveraging their values, culture, and stakeholder ties to build authentic and credible ESG trajectories.

6.4. Limitations

While the findings provide valuable insights, several limitations must be acknowledged. First, as a single case study rooted in a specific geographic and sectoral context, generalizability of findings is limited. However, the depth of analysis offers valuable analytical generalization applicable to other values-driven SMEs in regulated supply chains.

Second, while stakeholder perspectives were diverse, suppliers were underrepresented in qualitative interviews, limiting the depth of analysis into ESG integration among upstream supply chain partners. Third, ESG maturity was assessed through internal perceptions and emerging indicators, rather than full quantitative ESG data, which LMA has yet to produce.

Nonetheless, these limitations do not undermine the study's validity. The triangulation of methods - interviews, survey data, internal documents, and frameworks - ensures a robust and credible account of LMA's sustainability trajectory. The findings remain highly relevant for answering the research question and positioning future research.

6.5. Recommendations

The study's findings lead to several practical and theoretical recommendations for advancing ESG integration in SMEs. First, defining clear roles and responsibilities is essential. Without internal accountability mechanisms, sustainability efforts risk remaining ad hoc and unsystematic. Assigning dedicated personnel or establishing cross-functional ESG team can improve coordination, performance tracking, and external reporting.

Second, SMEs should systemically map and audit their existing CSR practices against ESG frameworks to identify both overlaps and gaps. This approach allows firms to build on embedded values and routines while recognising which dimensions of ESG require further development. Such audits serve not only as diagnostic tools but also as strategic roadmaps for capacity building. Moreover, capacity-building programs should target not only compliance but also the development of capabilities needed for sustained ESG engagement. ESG-focused training, stakeholder engagement exercises, and internal workshops can support this development and foster greater organizational coherence.

Given the disproportionate regulatory and administrative burden ESG reporting can place on small firms, public institutions and industry associations must play a stronger facilitative role. This includes the development of SME-specific ESG tools, among which simplified reporting templates, phased implementation pathways, and sector-specific materiality benchmarks. These tools should be co-developed with SMEs to ensure practical relevance and usability, helping to overcome the perception that ESG is overly complex or inaccessible.

In terms of scholarly advancement, future research should adopt comparative, multi-case designs across different sectors and national contexts to assess how institutional environments shape ESG emergence in SMEs. Such studies can reveal structural, cultural, or regulatory differences that accelerate or constrain ESG integration. Moreover, more attention should be paid to how internal capabilities - especially intangible ones like culture, trust, and leadership - interact during the CSR–ESG transition.

This study contributes to a more nuanced and practice-oriented understanding of ESG development in SMEs. It demonstrates that sustainability transitions are not linear or compliance-driven but emerge through the interplay of embedded values, stakeholder engagement, and internal capabilities - suggesting that a relational and adaptive approach to ESG is both possible and necessary in smaller firms.

In summary, ESG development in SMEs is not a linear compliance path but a relational, adaptive process. Effective integration depends on aligning embedded values with formal structures - suggesting that small firms, with the right support, can lead meaningful sustainability transitions from the inside out.

7. Conclusion

This thesis explored how embedded CSR practices, stakeholder dynamics, and internal capabilities influence the strategic transition toward ESG practices in SMEs, using Liburnia Maritime Agency (LMA) as a case study. Situated at the intersection of ethics, strategy, and institutional transformation, this research addressed a growing yet under-theorized question: how can relational, values-driven CSR in SMEs evolve into structured, measurable ESG engagement?

The findings demonstrate that LMA's CSR is not a superficial label, but a deeply institutionalized practice embedded in organizational culture, leadership philosophy, employee behaviour, and stakeholder trust. These commitments, ranging from environmental awareness and inclusive labour practices to community engagement and ethical governance, are internally motivated and historically cultivated. Although not designed with ESG frameworks in mind, many of these practices map directly onto ESG criteria, illustrating how informal CSR can lay the groundwork for future ESG alignment.

Importantly, the case study highlights that ESG emergence in SMEs is not triggered solely by regulation, but increasingly by stakeholder expectations, particularly from clients embedded in global supply chains and financial institutions evaluating sustainability performance. These external demands, while creating compliance pressures, also unlock pathways for strategic differentiation and competitive advantage. As the CEO at LMA noted: "ESG is definitely an opportunity to build long-term value." This quote reflects more than optimism, it shows that for SMEs, ESG can be seen as a strategic vehicle for future-oriented growth.

Theoretically, the thesis contributes to SME sustainability literature by connecting the RBV (J. Barney, 1991), dynamic capabilities framework (Teece, 2007), and Stakeholder Theory (Freeman, 1984). This integration allows for a more nuanced understanding of how SMEs can translate embedded ethical commitments into formal ESG practices. It shows that dynamic capabilities, including sensing, seizing, and reconfiguring, are not exclusive to large firms but can be cultivated within SMEs through leadership vision, learning culture, relational trust, and strategic reflexivity. These capabilities are both informed by and constitutive of the CSR-to-ESG transition.

In practical terms, this study demonstrates that SMEs can progressively develop their ESG practices by building on existing systems rather than undergoing radical transformation. ESG readiness is best understood as a continuum, shaped not just by technical capacity but also by cultural maturity and relational depth. For policymakers and sustainability advocates, this suggests a shift away from rigid, top-down metrics toward contextualised guidance, simplified tools, and tailored capacity-building that align with the realities SMEs face.

Ultimately, this thesis challenges the idea that ESG is merely a compliance burden for SMEs. Instead, it reveals how SMEs can cultivate ESG as a powerful source of strategic strength, rooted in their values, embedded in their culture, and strengthened by their relationships. By bridging the gap between implicit commitment and formal accountability, SMEs have the potential to lead sustainability transitions from the inside out, turning ESG into not just a requirement, but a driver of resilience, innovation, and lasting impact.

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Appendix 1: Statement on the use of generative AI

In the preparation phase of this Master's thesis, I used generative AI tools (specifically ChatGPT) in a limited, supportive, and ethically responsible manner. AI was not used to generate any part of the thesis text itself. All ideas, interpretations, and writing presented in this thesis are entirely my own.

Specifically, AI was used at the very beginning of the research process to help structure my time. It assisted in dividing the word count across thesis sections and in suggesting a preliminary outline, both of which served as a general starting point only and were revised and restructured throughout the writing process based on ongoing literature review, supervisory feedback, and my own critical reflections.

Later in the writing process, AI was used selectively to help navigate a large, consolidated document containing the results of my extensive literature review. This document included academic articles and relevant notes gathered through systematic searches using Web of Science, Google Scholar, and RUQuest. At times, when seeking specific information or connections within this material, I used AI to formulate targeted queries that helped me locate relevant content more efficiently. This use of AI served as a tool for orientation within an already curated body of literature, not as a source of interpretation or content generation.

Throughout, I used AI tools with caution and critical thinking, fully aware of its limitations and ethical implications. I made all final decisions on content, interpretation, argumentation, and structure independently. I took care to ensure that all claims were evidence-based and referenced appropriately using peer-reviewed sources.

This use was consistent with the academic integrity policies of Radboud University and with broader ethical standards regarding generative AI. I confirm that this thesis reflects my own scholarly effort and intellectual work.