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Sustainability Values and Strategic Innovation in Sustainable Fashion MSMEs: the Dynamic Capabilities Perspective

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Despite the paradigmatic shift towards sustainable fashion, MSMEs are experiencing additional challenges when making efforts to integrate sustainability values in their innovations. To intensify the transition towards sustainable fashion, there is a need to strategically innovate for MSME. There is a research gap on how MSMEs could effectively select sustainability values and integrate them in strategic innovations with limited resources to gain commercial success and to successfully compete in the market. This research aims to reveal the essential sustainability-related values in MSMEs and the strategic innovation implementation applying the dynamic capabilities perspective. Based on an exploratory qualitative study of sustainable fashion enterprises in Lithuania, this research contributes to the strategic management literature by identifying microfoundations that allow sustainable fashion enterprises to develop dynamic capabilities, as well as to sustainable fashion literature by extracting sustainability values which can enable enterprises to pursue their goals more efficiently.

Keywords: *Strategic Innovation; Dynamic Capabilities; Sustainability Values; Sustainable Fashion; Fashion Industry; Micro, Small and Medium Enterprises (MSMEs).*

Introduction

Since the Sustainable development goals (SDGs) were established, the major shift in institutional regulations and societal pressures, sustainable fashion has become a 'must' rather than 'nice to have'. However, sustainable fashion is criticized for its broad meaning thus confusing fashion brands and (potential) customers, and, as a result, hindering the wider transition towards sustainable fashion (Niinimäki, 2015; Elk, 2021). In addition, sustainable fashion is also debated for its narrow focus on diminishing negative effects of the fashion rather than instilling the key principles based on sustainability and responsibility in the ideation phase by integrating values aligned with the Sustainable Development Goals (EMF, 2017; Buchel *et al.,* 2018; Black *et al.,* 2019). Especially, in the management field, sustainable fashion is still unclear and requires clarification to identify potential opportunities and to scale the concept at the managerial level (Mukendi *et al.,* 2019). Other research in sustainable fashion is within specific its domains like on supply chain management (Diabat, Kannan, & Mathiyazhagan, 2014; Wu *et al.,* 2014; Strahle & Muller, 2017; Macchion *et al.,* 2018; Chowdhury, Agarwal, & Quaddus, 2019), capabilities for sustainability competence (Wong, & Ngai, 2021), consumers and their intentions towards sustainable fashion (Tey, Brindal, & Dibba, 2018; Hong & Kang, 2019; Blazquez *et al.,* 2020), and retailing (Yang *et al.,* 2017). The prior research emphasizes that the sustainable fashion literature therefore needs elaborating on the role of specific values and their manifestation via the strategic and innovative practices of enterprises which can make sustainable fashion concept efficient (Niinimäki, 2015). Majority of existing research studied sustainability values in large (luxury) fashion firms (Yang, Han, & Lee, 2017; Wong & Ngai, 2021) or in the specific context of circular economy with a focus on ecological values (Colucci & Vecchi, 2021; Elf *et al.,* 2022).

Despite the challenges of the sustainable fashion concept, there has been a notable emergence of sustainable fashion MSMEs which were able to sense emerging SDG-related values and shift in the market towards sustainable purchase, as well as to challenge the already existing fashion practices and products. MSMEs are often hailed as the driving force behind innovation within the broader fashion industry since they comprise 99% of all enterprises in Europe and thus represent one of the main pillars of the European economy (Prieto-Sandoval, Jaca, & Ormazabal, 2018; European Commission, 2023). While it seems that MSMEs have major potential in developing sustainable solutions for the fashion industry, however, MSMEs are highly affected by scarce access to skilled human and financial resources (Allianz Research, 2020). From a strategic point of view, MSMEs have to choose carefully their focus on sustainable fashion – it is a wide concept, therefore, due to scarce resources, they are not able to implement all the sustainability aspects in their activities. They must select sustainability aspects and strategically implement those in their activities and business model(s).

Thus, there is a research gap on how MSMEs could effectively select sustainability values and integrate them in strategic innovations with limited resources to gain commercial success and to successfully compete in the market (Niinimäki, 2015; Elf, Werner & Black, 2022). Thus, responding to the call of Abbate et al. (2023) to investigate how sustainable fashion enterprises could more efficiently strategize and manage their businesses, this research aims to fill in the gap by revealing the essential sustainability-related values in MSMEs, the strategic

innovation development applying the dynamic capabilities perspective in MSMEs. In this sense, the vitality of the relevant sustainable fashion values categorized in socio-ethical, ecological and economic, and dynamic capabilities in MSMEs becomes a significant viewpoint for understanding the operationalization and the overall sustainable development of fashion enterprises. Based on previous research, the role of sustainability values was identified as fostering strategic innovations (Niinimaki, 2015); however, a more detailed examination is needed in terms of how values play a role in developing strategic innovations.

To better understand strategic innovation development, dynamic capabilities play a pivotal role in strategic innovation (Elf *et al.,* 2022). The achievement of strategic sustainable solutions requires sensing and seizing new solutions and potential innovation that are specific in the fashion context, and then reconfiguring the (existing) capabilities and resources to realize new opportunities (Da Giau *et al.,* 2020; Elf *et al.,* 2022). In recent years, several researchers delved in the role of dynamic capabilities in a sustainable and circular fashion, as both of these concepts are used interchangeably. Some focused on MSMEs (Elf *et al.,* 2022), others studied various size of firms (Sandberg & Hultberg, 2021). However, most research focused on the circular business models mainly covering the ecological aspects. Circular economy is an essential part of sustainable fashion; however, in the context of MSMEs, circular fashion is too narrow due to leaving behind the social and ethical values. Other research examined the microfoundations of dynamic capabilities in two social enterprises, with one of them being in sustainable fashion (Bhardwaj *et al.,* 2022). Thus, there is a need to explore the relationship between values, dynamic capabilities, and strategic innovation. Based on an exploratory qualitative study of sustainable fashion enterprises in Lithuania, the paper aims to explore the sustainability values in the fashion context and the microfoundations of the dynamic capabilities involved in the strategic innovations developed in sustainable fashion MSMEs.

Thus, this paper contributes to the sustainable fashion literature by providing novel insights on a) what are the key sustainable fashion values in MSMEs so that they can be assured that they can identify themselves as sustainable fashion brand, and b) how strategic innovation and, in particular, dynamic capabilities enable MSMEs to deploy sustainable innovative solutions within the fashion industry.

Literature Review

A strategic transition to a sustainability innovation in the fashion context implies a paradigmatic shift which requires the integration of proactive sustainability values into the different levels of an enterprise's strategic direction and operation (Elf *et al.,* 2022). Thus, this section aims at providing the importance of sustainability values integration into the strategic innovation development phase, and emphasizes the role of the dynamic capabilities perspective in this process.

Strategic Innovation in MSNEs and Dynamic Capabilities Perspective

Strategic innovation was first defined by Markides (1997) as "when a company identifies gaps in the industry positioning map, decides to fill them, and the gaps grow to become the new mass market" (p. 12). These key elements are the identification of the gap in the industry or/and the reconceptualization of the business model, a high or dramatic increase in the creation of value that could lead to a transformation of the market and industry (Markides, 1997; Varadarajan, 2018). The goal is to recognize the already existing mental models and tacit industry rules (Schlegelmilch et al., 2003) and to come up with business model innovation to break existing rules and propose new ones (Drejer, 2006). The main focus on substantial value creation instead of the competition defines strategic innovation (Varadarajan, 2018). Thus, rather a human-centered or planet-centered approach is applied by following non-customers who can provide new insights into potential ideas for strategic innovation (Prahalad, 1993; Schlegelmilch *et al.,* 2003).

Strategic innovation in the fashion context is distinct in many forms that it can take upon – from design, customization solutions, digitalization, innovative sustainable materials to supply chain and manufacturing solutions, collaborations and partnerships, marketing, etc. (Todeschini *et al.,* 2017; Macchion *et al.,* 2018; Huynh, 2021). However, for sustainable fashion enterprises, especially MSMEs, a variety of barriers can hinder the processes. On the one hand, changing customer preferences, institutional regulations, intensive competitive environment (especially with the fast fashion models) are external factors which can have influence on strategic innovation (AlQershi, *et al.,* 2018). On the other hand, in the face of difficult macroeconomic conditions or other challenges in the business environment, MSMEs demonstrate effective and creative adjustment of their strategic responses to the changes, while often adapting radical solutions resulting in positive performance of a firm (Ipinnaiye *et al.,* 2017). In the context of a weak market power and vulnerability, flexibility and swift adaptation to a changing environment emerge as crucial aspects of success for SMEs (Hernández-Linares *et al.,* 2021). However, common barriers to successfully implement strategic innovation are lack of resources regarding human capital, such as knowledge, competencies, and finances (AlQershi *et al.,* 2018).

Strategic innovation is mostly analyzed through the perspective of dynamic capabilities. Dynamic capabilities are defined as the "ability [of businesses] to integrate, build, and reconfigure internal and external competencies to address rapidly changing environment" (Teece *et al.,* 1997, p. 516). Dynamic capabilities are supported by microfoundations that can manifest via skills, processes and activities which influence the way a firm responds to the changes in the environment and thus can gain competitive advantage (Eisenhardt & Martin, 2000; Teece, 2007). This process of responding to the environment is conceptualized into three main phases: 1) sensing; 2) seizing; 3) reconfiguring (Teece, 2007). Sensing involves gaining knowledge and identifying potential opportunities or threats in both the internal and external environment (Feiler & Teece, 2014). In the context

of sustainability, learning to recognize these opportunities is essential for developing innovative solutions that contribute to sustainability (Wong, 2013). Seizing entails orchestrating processes and activities to implement the sensed opportunities to capitalize on the sensed opportunities by creating new products, processes, or specific business models (Teece, 2007). Reconfiguring is focused on maintaining alignment with the changing environment by enhancing or adapting the firm's intangible and tangible assets accordingly (Feiler & Teece, 2014).

Dynamic capabilities perspective has an important role in achieving sustainability (Bocken & Geradts, 2020; Filser *et al.,* 2021). Although the research of dynamic capabilities tends to be more focused on large firms as their processes are more structured, however, there is emerging research on the dynamic capabilities in MSMEs with a focus on sustainability (Filser *et al.,* 2021; Elf *et al.,* 2022). While the state-of-the-art research on dynamic capabilities has been conducted in the circular economy context (Khan et al., 2020; Elf *et al.,* 2022), only a few studies focused on dynamic capabilities in the sustainable fashion (Da Giau *et al.,* 2019; Wong & Ngai, 2021). Da Giau et al. (2019) studied three large Italian fashion firms and highlighted the pivotal role of dynamic capabilities in achieving sustainability. However, their empirical analysis provided results specific to large enterprises, emphasizing the importance of established routines – environmental search, stakeholders integration, and the central role of the Sustainability Department. Wong and Ngai (2021) explored how the dynamic capabilities view contributes to business sustainability in fashion firms via organizational, economic, and environmental competencies. Their findings indicated that small- and medium-scale businesses require a higher business sustainability competence. Consequently, research on DC in achieving sustainability in MSMEs requires further investigation.

Sustainability Values in Fashion as a Guiding Input for Strategic Innovation

Sustainable fashion is a complex term with its origin pertaining to Sustainable Development (Brundtland, 1988). Overall, sustainable fashion is understood as "<…> ecological integrity, social quality, and human flourishing through products, action, relationships and practices of use" (Fletcher, 2008, p. 18). Sustainable fashion overlaps with such concepts as *slow fashion* (Reimers *et al.,* 2016; Henninger *et al.,* 2016; Mukendi *et al.,* 2019), *eco fashion* (Carey & Cervellon, 2014; Reimers *et al.,* 2016; Mukendi *et al.,* 2019), *green fashion* (Carey & Cervellon, 2014), *circular fashion* (Mukendi *et al.,* 2019), and *ethical fashion* (Carey & Cervellon, 2014). Sustainable fashion is most closely related to ethical fashion (Lundblad & Davies, 2016) which is described as both a product and a process based on ethical principles, such as fair trade, good working conditions, activities that are not harmful to the environment, and use of environmentally friendly materials (Joergens, 2006). The connections of sustainable fashion to other related concepts demonstrate a wide range of social, ethical, ecological and economic aspects (or values) that form the actual concept of sustainable fashion.

Values are an important part of businesses. They describe what seems important, what is considered desirable and worthwhile, and therefore they shape behaviors and actions (Mejia-Trejo & Rodriguez-Bravo, 2020). Values also give support in the strategy and selection processes by giving firms a normative orientation which goes beyond financial orientations and has the potential to encourage the development of sustainability-focused business models, products, and services (Ivanov, 2022). Values clarify what a firm represents (Manohar & Pandit, 2013), and they get manifested via dedicated management actions (Breuer & Ludeke-Freund, 2017). This conforms to the forthcoming EC guidelines that ethical, social, and environmental values must become a central axis in science, business, and policy-making (Von Schomberg & Hankins, 2019).

Since values lay the ground for strategic innovation in the sustainable fashion business (Niinimaki, 2015; Yang, Han & Lee, 2017), based on literature review, key socio-ethical, ecological and economic values relevant for the MSMEs were extracted (Table 1). Socio-ethical values are mostly derived from the context of sustainable fashion, while ecological and economic values were found both in the sustainable and circular fashion contexts. *Socio-ethical values* include good working conditions, fair wages, no child labor, transparency, and traceability (Yang, Han & Lee, 2017; Kozlowski, Searcy, & Bardecki, 2018; Agrawal & Pal, 2019). Safe and healthy working conditions (for example, providing necessary facilities, such as water, sanitation, accommodation, ensuring proper ventilation, technological and fire safety to protect from accidents) for all employees in the fashion supply chain are among the most crucial aspects in the sustainable fashion context. *Ecological* values include raw material management, environmental well-being, after-use management, and certification and standards (Yang, Han & Lee, 2017; Sangwan & Bhatia, 2020; Marinovic-Matovic & Arsic, 2020; Elf *et al.,* 2022). *Economic* values are the quality and economic longevity of a product, along with its macroeconomic impact (Yang, Han & Lee, 2017; Colucci & Vecchi, 2021; Elf *et al.,* 2022).

Methods

A qualitative research strategy adopting a multiple case study was applied to investigate the manifestation of sustainability values and microfoundations of dynamic capabilities in sustainable fashion enterprises (Eisenhardt & Graebner, 2007; Creswell & Creswell, 2017).

Selection of the case studies. Sustainable fashion MSMEs developing strategic innovations based in Lithuania were the main focus of this study. The enterprise size categories used in this study are based on the definition provided by the European Union, with enterprises that employ fewer than 9 people being defined as micro enterprises, those with 10–49 employees perceived as small enterprises, those with 50–249 employees referred to as medium-sized enterprises, and those with 250 or more employees considered to be large enterprises.

In total, 53 sustainable fashion MSMEs were identified in Lithuania. A non-random purposeful sampling approach was used with the following selection criteria extracted in the literature review:

1) an enterprise developed a strategic innovation in the sustainable fashion industry, which was manifested in unique, niche products or services encompassing creative

design, sustainable materials and manufacturing solutions, strategic collaborations and partnerships, innovative marketing strategies.

2) approach of the integration of sustainability values in developing their fashion business was expressed regarding the following aspects: *socio-ethical* (transparency, traceability, certifications and standards, good working conditions), *ecological* (raw material management, efforts towards environmental well-being, including reduction of water pollution, energy resource management, minimizing the greenhouse effect, and after-use management, such as recycling clothes, take-back systems, etc.), and *economic* (the quality and economic longevity of a product, and the macroeconomic impact on the national economy and sustainable fashion industry development).

3) enterprises that are awarded or acknowledged as being successful in innovative activities by national or international institutions or/and being exemplary in sustainability, CSR, etc.

Secondary data was collected from all accessible sources of information about the enterprises, such as their websites and public documents related to the enterprises (Creswell, 2017) to select the enterprises for the research based on their socio-ethical, ecological and economic values manifesting via strategic innovations. Only MSMEs working in the clothing and/or textile fields were included in the sample to keep it homogeneous, whereas others – like shoe-making and jewelry enterprises – were excluded. The final sample comprised 13 cases for empirical analysis.

Data collection and analysis. A semi-structured interview was applied to gain new insights by revealing different views and opinions of the people with correcting or/and additional questions (Yin, 2009). Semi-structured interviews were conducted with the representatives of the case study enterprises, thereby ensuring that the research participants had the required knowledge on the research topic. Upon explicit request of most of the research participants in the sample, their names were anonymized.

The interview was constructed based on the indicators extracted from the literature (sustainability values and dynamic capabilities) (Kvale & Brinkmann, 2015). The interview guideline was prepared in advance in coherence with the research aim. The interview started with a short introduction about the research topic, followed by an inquiry for the research participant to present themselves and their role regarding strategic innovation in the sustainable fashion enterprise. The interview continued with questions concerning sensing, seizing and reconfiguring activities. When a new related theme to sustainability values or dynamic capabilities emerged during the conversation, the interviewer asked to elaborate on it.

The interviews with 17 interviewees were conducted during face-to-face meetings at a convenient place for the research participants, or by using online video conference software during the period from January to August 2022. The interviews lasted, on average, 50 minutes.

Table 1

Overview of the Case Enterprises

Case Enterprise	Strategic Innovation	Interviewee ID	Interviewee position	Size
Enterprise A	Sustainable accessories with successful application of innovative materials	**1**	Founder & designer	Micro enterprise
Enterprise B	Conceptual high-quality, unisex, all-seasons clothes and accessories with modularity functions	**2**	Co-founder & designer	Micro enterprise
		3	Co-founder & designer	
Enterprise C	Sustainable clothing with Lithuanian identity design elements from natural materials	**4**	Founder & designer	Micro enterprise
Enterprise D	Stylish upcycled clothing targeting niche product categories like jackets	**5**	Co-founder & designer	Micro enterprise
		6	Co-founder	
Enterprise E	Sustainable knitwear using natural materials or leftovers with a focus on seniors' empowerment	**7**	Head of product & sustainability	Micro enterprise
Enterprise F	Sustainable accessories with a transparent supply chain, selling high quality products for accessible price	**8**	CEO	Micro enterprise
Enterprise G	Stylish high-quality long-lasting bags with repairing services, collaborating with influencers to create collections	**9**	Founder & designer	Small enterprise
		10	Manager & operations	
Enterprise H	High quality sustainable shirts with standardized and certificated processes and innovative marketing approach	**11**	Marketing lead	Small enterprise
		12	Project manager	
Enterprise I	Upcycled, timeless aesthetics design based clothing	**13**	Founder & designer	Small enterprise
Enterprise J	Sustainable bags focusing on timeless aesthetics, applying modular design strategies, 3D printed parts using leftovers	**14**	Founder & designer	Small enterprise
Enterprise K	Specialized sustainable clothing design and implementation services	**15**	Founder & designer	Small enterprise
Enterprise L	Sustainable luxury clothing with innovative designs and marketing strategies	**16**	Founder & designer	Small enterprise
Enterprise M	Vintage clothes platform focusing on high quality clothes with an innovative marketing strategy	**17**	Founder	Small enterprise

Abductive data analysis was applied to find the useful explanation for the examined phenomena (Hurley et al., 2021). Following the abductive coding approach, data collection, analysis and interpretation using the data analysis software *Maxqda* were organized in a circular way to reveal key themes and sub-themes that emerged both from theory and empirical results regarding sustainability values (Figure 1) and dynamic capabilities (Figure 2) (Braun & Clarke, 2006).

Following recommendations by Saldana (2015), the first step was to prepare the data for analysis by transcribing the interviews and familiarizing with the initial data to search for potential patterns and codes within the data leading to further data collection. The second step involved coding certain sentences or paragraphs into codes, which resulted in two rounds of coding. The third step was the identification of the themes that were based on the relationships between codes that were iteratively identified in existing literature in sustainable fashion for identifying the literature covering values, and dynamic capabilities. As an initial structure for the analysis of dynamic capabilities, three dynamic capabilities, i.e. sensing, seizing, and reconfiguring – as developed by Teece (2007) – were guiding the basis for the first order categories. In the next round of data analysis, the Elf et al. (2022) framework of microfoundations of dynamic capabilities was used, thereby adding the fourth dynamic capability, namely, *configuration*, relevant for sustainable fashion MSMEs. The fourth step was theorizing where clustering and explanation of themes were guided by the currently available theoretical understanding (Atkinson et al., 2003). To ensure reliability, the developed categories and subcategories were discussed and aligned with the other researcher in the strategic management field.

Research ethics. The research was conducted in an ethical manner: the free will of the participants to take part in the research was ensured, the research aim and the preliminary interview questions were introduced before meeting with the interviewees. The privacy of the enterprises' names and informants was provided upon the wish of the interviewees (Johnson et al., 2019).

Results

In the major part of the cases (Table 3), the personal values of the founders were the main motivation to start a sustainable fashion brand based on their personal values linked to sustainability, as, for example, was the case with the upcycled clothing enterprise:

"We communicate things responsibly [...] we don't lie [...] we don't pretend [...] and communicate the truth." (Interviewee 7)

The alignment of the internal and external values strengthens the interviewees' motivation for a meaningful business for which they are ready to go through various challenges and to find solutions. A few enterprises received financial investments because of the integrated sustainable fashion values into the business model. Enterprise A introduced their sustainable fashion business idea on a crowdsourcing platform and was supported with the indicated amount of money. Another enterprise also stated that:

"I think if it weren't for this sustainability aspect, which encompasses social, environmental, and economic factors, the enterprise probably wouldn't have been able to impress investors." (Interviewee 7)

Moreover, sustainable fashion values also serve as a guideline for the further business model (innovation). As it was noted in the literature, there is still confusion about whatever the term *sustainable fashion enterprise* means, and when one can perceive themselves as a sustainable fashion brand. Thus, based on empirical results, the initial set of sustainable fashion values was complemented from the sample data (Table 3).

Starting from the *socio-ethical* values, transparency about the materials was mentioned in half of the enterprises as a crucial way to contribute to sustainability. Transparency was also about the price transparency in some enterprises (Enterprises E & H). A few enterprises employed skilled seniors for their constant or temporary projects (Enterprises B & E). Several MSMEs mentioned the importance of creating affordable sustainable fashion (for socially sensitive groups) with accessible prices (Enterprises D, H, M). Other enterprises stressed the importance of *certificates and standards* regarding production and materials. However, the majority of enterprises were conducting *educational activities* to the society as well as the fashion industry members about sustainability. Educational activities were stemming from the inner values and the mission-driven approach to promote sustainable fashion.

Regarding *ecological* values, sustainable materials were the main focus in all enterprises. The majority of them were applying the upcycling strategy for the creation of their new products. Other enterprises tended to use recycling, or they were using leftovers of their own or other enterprises by applying innovative technologies, including 3D printing:

"So now, together with the designer, we started to grind and print those remains with a 3D printer, those leather scraps." (Interviewee 14)

Environmental well-being was too broad and rather relevant for large enterprises as the enterprises involved in this case study are too small to manage the entire supply chain (only Enterprise H addressed energy and waste management). On the other hand, resources and energy saving were their natural understanding which manifested in their production via limited production (customized or made-to-order production). Sustainable packaging using compostable materials or sewed bags from leftovers was mentioned (Enterprises A, I, J, K, M). Lastly, logistics was mentioned as an important ecological factor for the majority of the enterprises with attempts to create selling points so that to avoid shopping online or commuting. Some mentioned efforts to minimize logistics steps (Enterprises F & H).

Table 2

Sustainable Fashion Values in Strategic Innovations of Case Enterprises

Values dimension	Values	Description	Frequency	Case enterprises (and exemplarily quotes)
Socio-ethical values	Transparency	Price transparency	2	*"We communicate things responsibly [...] we don't lie [...] we don't pretend [...] and communicate the truth." (Interviewee 7)*
				"<…> in the 'About' section [we provide information] regarding price transparency and providing tables for electricity prices, and similar information." (Interviewee 11)
		Providing transparent information about the composition of the materials	6	*"Everyone [in this industry] seems to be a sustainable fashion brand now and understands [what is sustainable] <…>. Well no, you cannot talk about sustainable fashion without knowing the basics, like how much polyester is in your fabric." (Interviewee 2)*
				"The most important thing is to inform the customer about care and composition, all products must have labels with all the information, how to wash, how to iron, how to care, and how the product is made." Interviewee 8)
	Employing sensitive social groups	Skilled women from rural areas are employed	3	*"I just called [the weaver] from the suburb of Kaunas <…> and she brought the examples of her work, and it was just amazing, so professional, and even though she could not see well but she did her job perfectly." (Interviewee 2)*
				"Now we have a group [of women]… who can, according to their pace, according to their lifestyle <...>, or according to any of their other activities, in many cases it is also work, they simply combine [the work] with their other activities and can work from anywhere in Lithuania." (Interviewee 7)
	Education	Educating customers and fashion industry actors about sustainability	15	*"I am trying to educate the society because you can really wear a product for a hundred years, and we just need to educate and talk about it all the time." (Interviewee 5)*
				"And then people [start questioning]: "why is it wrong, and then what is good? Why are you pointing out that the quality is poor at Zara?" If you can answer with a reasoned argument, that look, it is poor because it cannot be such a garment, to cost so much, this means that it is somehow not paid <…>." (Interviewee 13)
	Affordable price	Affordable price for various (sensitive) social groups	4	*"I would like to create a more affordable line specifically for people who don't have much money." (Interviewee 5)*
				"<…> maintaining such a price that really affordable luxury is actually obtained, that those shirts are really of the highest quality, and the price is not as high as could be." (Interviewee 11)
	Certificates and standards	Production and materials are based on certifications and standards	7	*"<…> it is a linen dress, and it is OEKO-TEX certified." (Interviewee 4)*
				"There are many different certifications and recycling, these 'eco-friendly' certifications, OEKO-TEX, and others. Besides, there are standardized label requirements, for example, mandatory care labels." (Interviewee 15)
Ecological values	Sustainable materials	Material recycling	6	*"Our specific vision and philosophy are to recycle waste, <…>, what we have already consumed." (Interviewee 1)*
				"So now, together with the designer, we started to grind and print those remains with a 3D printer, those leather scraps." (Interviewee 14)
		Upcycling	10	*"I post a message on social media saying that you can bring your unwearable clothes, and we will upcycle them." (Interviewee 5)*
				"I am very supportive of all upcycling community. I don't feel competition that someone might see something from my creation and so on. I have a different approach." (Interviewee 13)
		Innovative materials	2	*"We don't use any plastic at all. Our hangers are made of wood, cork, or other innovative materials." (Interviewee 11)*
				"As an example, one customer makes products entirely from hemp fiber, there are pillows with hemp shells, labels made from hemp, fur jacket for warmth also from hemp. The complete product is hemp." (Interviewee 15)
		Natural materials	5	*"We pay great attention to the materials we use; our top priority is to work with natural products and materials and ensure a sustainable production process." (Interviewee 8)*
				"… we make [clothes] only from natural materials." (Interviewee 2)

Values dimension	Values	Description	Frequency	Case enterprises (and exemplarily quotes)
		Using leftovers of materials	6	*"<...> we didn't use any newly made materials, we used scraps, very good and quality ones <...>, well, in a sense, products from those scraps." (Interviewee 2)*
				"I don't have a lot of waste in general, I try to use all the leftovers, I will still think of something to do. <...> I don't throw the leather away, because when you throw it, you know, it is the same as you would throw food away." (Interviewee 14)
	Limited production	Customized or/and made-to-order production	5	*"<...> a customer can come and order according to their individual measurements, choose fabrics, collars, cuffs, absolutely everything and have their shirts made." (Interviewee 12)*
				"<...> 'made to order', when you collect orders and only then produce." (Interviewee 15)
		Reducing products or production waste	9	*"In small quantities, I don't do much – five units each. I work so that neither the idea itself nor the principle [of sustainability] itself suffers, because if you produce a hundred upcycled clothes, it will still be excess production." (Interviewee 5)*
				"<...> we aimed at reducing the impact of the product in terms of waste, raw materials and pollutants. It's actually again very bold to say that it's downsizing." (Interviewee 8)
	Sustainable packaging	Using more sustainable packaging solutions	5	*"We use recycled paper for our packaging and labels, well, 100 percent recycled." (Interviewee 1)*
				"The most important criteria are materials, production volumes, packaging and the business model itself, as I mentioned. It is important to avoid packaging, as little packaging as possible, bags can be made from waste as a material for packaging." (Interviewee 15)
	Logistics	Minimizing logistics steps	2	*"<...> that also has a very big influence, and, in terms of pollutants, again circular economy, in fact we do not work with exports, <...> we do not use a lot of export costs." (Interviewee 8)*
				"<...> we needed that salon and that place where customers could come and make their own shirts, because before that salon was there, those customers used to go to [X city] and they interfered with the work of those constructors and those technologists when they had other jobs of their own, so there was a need for that salon and a craftsman who would work there and accept those orders and all this worked out." (Interviewee 12)
		Creating selling points	8	*"I am not planning to open my store in big cities, except to cooperate with already existing boutiques." (Interviewee 4)*
				"We love participating in various events where we can sell our remaining products and showcase them in reality. Sometimes there are people who want to feel and touch the products, and that might be the main issue. We are hesitant to produce large quantities of items in advance and store them for selling later." (Interviewee 11)
Economic values	Quality and economic longevity of a product	High quality, long-term product	14	*"What I always tell people – don't bring stockinet, I won't make anything out of it, it's absolutely something that won't work. Therefore, I usually look for better materials, where there is a lot of wool, what will really last, and what is sustainable. I observe this materiality very much, I simply re-select things." (Interviewee 5)*
				"<...> the products are truly of the highest quality <...>" (Interviewee 11)
		Timeless aesthetics	7	*"We always consider not going to extremes with our designs."* (*Interviewee 5)*
				"<...> that contributes, plus the design, so we get such a good combo, where the customer can buy it <...> who works in the office, but he doesn't want to look like an office person, so it's really good for him." (Interviewee 12)
		Product repair warranty	4	*"<...> they [customers] sometimes bring us clothes to mend because they wear them a lot and don't want to throw them away." (Interviewee 2)*
				"Maybe the customer wears it, something came out [of the cloth], there is an option to repair the product for him and return it back." (Interviewee 11)
		Material testing	6	*"<...> then we did a lot of tests to confirm the composition, and it was after a lot of tests that we created exactly the product that we have today." (Interviewee 1)*

Values dimension	Values	Description	Frequency	Case enterprises (and exemplarily quotes)
				"There is a significant risk with woolen products that one might be disappointed quickly, and, therefore, it is necessary to test them personally." (Interviewee 8)
	After-use strategy	Forecasting secondary use of the product or its parts	3	*"<…> working out that assembly process, first of all... And finding a company that would like to work with us [to create a secondary product]." (Interviewee 1)*
				"*<…> to remake it [the cloth], or eventually recycle it, so that its journey would not end in landfill." (Interviewee 15)*
	Unisex, universal products	Unisex products to avoid additional waste	3	*"Unisex clothes <…> they impose freedom. <…> We wear ourselves man clothes, we do not understand why there must be a difference." (Interviewee 2)*
				"<…> here's one more thing, our clothes have no gender at all." (Interviewee 5)
		Universal products for all seasons	4	*"<…> although I try not to get attached to the season, because I think it is also very important in sustainability not to have that seasonality." (Interviewee 1)*
				"We do not encourage seasonality, which means not only focusing on summer, winter, autumn, and spring, but also considering off-season and similar periods. <…> We sew garments that you can wear throughout all seasons." (Interviewee 6)
	Local/national identity	Designing products which reflect local/national identity	2	*"<…>we actually create items that are suitable for all seasons." (Interviewee 9)*
				"To maintain sensitivity, vitality in our creations, designs, and the theme of the Lithuanian identity is still very important to me." (Interviewee 4)
	Local supply chain	Developing products in own country	7	*"All our products are made in Lithuania, and we choose packaging from Lithuanian manufacturers as well." (Interviewee 8)*
				"I also think that what contributes to the well-being we create is that all the sewing shops where the products are produced are located in Lithuania." (Interviewee 15)
	Contribution to national fashion industry	Local collaborations	3	*"We <…> choose who to collaborate with – from our circle – who would create the design." (Interviewee 8)*
				"*<…> to integrate the creator [designer] in the creation of the T-shirts, we need to find a suitable designer who could collaborate with us and come up with some unique designs." (Interviewee 12)*

As for *economic values*, all case enterprises focused on quality and economic longevity of a product by ensuring a high quality design. Half of the enterprises were focused on timeless aesthetics. To ensure the quality and longevity of the product, additionally, enterprises were testing materials (Enterprises A, B, F, K). The product longevity was also ensured by designing unisex and universal clothes for all seasons (Enterprises A, B, D, G, H, K). As for the macroeconomic impact, case enterprises were contributing to the national economy by strengthening the local fashion supply chain, local collaborations with designers or other enterprises, or creating new ones for sensitive social groups, and designing products inspired by or reflecting the national identity. To summarize, regarding the socio-ethical values, educating consumers and fashion industry actors about sustainability was most evident in all the cases. In relation to ecological values, efforts in sustainable materials and, specifically, focusing on upcycling, was evident in the cases. Also, reducing products or production waste was one of the main targets for the cases. As for economic values, enterprises mostly focused on developing high quality and long-term products. Overall, ecological and economic values were expressed more intensively than socio-ethical in the cases.

Strategic innovation and dynamic capabilities. These microfoundations either relate to the efforts of enterprises to identify the internal core values related to sustainable fashion, align with sustainable fashion practices by bringing a positive impact to the society and the environment, create or reconfigure a sustainable business model that would contribute to a long-term sustainability strategy developed by the enterprises (Table 3).

Sensing

Scanning the wider business environment. This aspect involves the ability of an enterprise to identify and recognize changes and opportunities in its external environment. It requires a heightened awareness of the market trends, customer needs, technological advancements, regulatory shifts, and competitive landscape. Some cases were ignited to start or transform into a sustainable fashion brand as they sensed upcoming regulations towards sustainability, circular economy or circular materials (Enterprises F, G, K), as well as strategic directions communicated by investors to invest in sustainable business only:

"'Invega' communicates now, and also in the past year during the 'Login' [business conference] that they [investors] are not planning to invest in any unsustainable businesses." (Interviewee 7)

A classic microfoundation, *customer feedback and engagement*, was used by enterprises to actively shape their products towards sustainability (Enterprises C, D, E, G, H, I,

J, L), to gather information on the enterprises' target audience preferences and to avoid surplus production that does not match the market needs and style, as, for example, done by the Enterprise G:

"Suppose you don't have a horizontal handbag with a long handle. Let's say several women have asked you this and you take it into account." (Interviewee 9)

Some enterprises are pro-active in providing knowledge themselves by sharing it via seminars or running educational workshops on the topic of sustainable fashion (Enterprises I & J). Knowledge creation activities allow sensing the customer audience, their behavior and attitudes towards sustainable fashion, gathering information from competitors about their sustainable fashion practices and challenges, as well as sensing the overall situation regarding the transition to sustainability in the fashion ecosystem. This allows being aware of the existing situation across the entire range of the sustainable fashion industry and thus understanding what the opportunities and challenges for the case enterprises are.

Regarding *idea generation*, case enterprises frequently referred to the plans about closing the loop by establishing opportunities for customers to return used products via establishing take-back schemes, where they could deploy secondary use strategies of the used products (Enterprise A & D). Other enterprises also focus on the shopping experience that would lead to emotional bond and contribution to the local economy. For example, one enterprise mentioned art exhibitions blended together with a shop (Enterprise H), while another enterprise focuses on combining a shop together with local tourism and educational experiences (Enterprise C).

Another important microfoundation was the ability to engage in *experiential learning* by enrolling in various design programs oriented towards sustainability or circular economy, as well as collaboration with experts searching for new sustainable solutions (Enterprises A, D, G, I, J, M). The sustainable or circular product development programs were critically important in testing out the ideas, and, in some cases, changing the initial idea radically, as in both cases of the enterprises producing sustainable bags (Enterprises G & J).

Seizing

Strategic decision making refers to embracing rapid decision-making processes which enable quick responses to the changing market demands and sustainability opportunities in the long-term perspective.

"Two years ago, I just upcycled a jacket for myself, and just shared on Instagram – I received so many positive reactions, it was really surprising, and then I realized that people had changed, I just sensed it in the air. <…> Then I made a decision to go for upcycling." (Interviewee 13)

Strategic collaboration involves cooperation with other designers, influencers, research organizations or other enterprises to create unique sustainable designs and reach new markets. Some enterprises applied co-creation strategy with influencers to create innovative design and to seize the new markets of those influencers (Enterprises A, G, H).

Other microfoundations related to seizing activities included exploitation of *technological platforms and software*, as done by the Enterprise K which uses 3D programs for designing prototypes instead of real prototypes, thus advancing sustainability by avoiding waste usually generated during the prototyping phase. Moreover, many other enterprises in the sample actively utilized already existing social media platforms to develop a close relationship with customers and use it to scale the sales thus moving to the direct-to-consumer models (Enterprises A, D, E, F, H, K).

Niche product identification based on sensing activities followed by allocation of the needed resources to develop innovative ideas so that to fill a gap in the market was mentioned among the cases frequently:

"The most important thing is the uniqueness of the product and its potential in the market because to start a clothing business, you have to be much better than other brands." (Interviewee 15)

Business model innovation was another important microfoundation that was quickly adapted from the sensing activities, as, for example, an enterprise sewing clothes evolved into a brand providing sewing services of the sustainable design and production (Enterprise K). Other enterprises went on outsourcing competencies in rural areas by employing senior women with communicating a full supply chain transparency, creating a new competitive edge (Enterprises B & D). Another common type of the business model innovation oriented towards sustainability was made-to-order custom production. Several enterprises (Enterprises C, G, H) employ the made-to-order model or personalization, which involves adapting the created designs based on the height or the body shape and producing them only upon request. This approach is based on sustainability principles, where the product is tailored to the customer, personalized, made from sustainable materials, and each item reaches the buyer while avoiding unsold product warehousing. Customization of the products also increases the emotional bond with the product, so the customer might want to use it for a longer period of time.

Configuring

A clear long-term vision and mission on sustainability was essential in configuring activities in many case enterprises:

"I think if it weren't for this sustainability aspect, which encompasses social, environmental, and economic factors, the enterprise probably wouldn't have been able to impress investors." (Interviewee 7)

Grounding a business on personal values of the representatives of fashion brands and aligning with the current shifts of the societal values in the market was frequently mentioned as a means to enhance opportunities for their fashion business, improve the organizational alignment between the employees and even with the suppliers and customers (Enterprises A, C, D, E, G, I, J).

To many case enterprises, it was crucial to configure the highly skilled, professional and trusted employees or

outsourcing them on a constant basis (Enterprises A, B, C, D, F, J, K, M). For example, a sustainable clothing brand came out with the idea of cultural heritage design, and they promptly searched for a skilled professional with specific craftsmanship:

"I hire construction services <…>, followed by sewing services from a small sewing shop. Several individuals work there, and I am uncertain about the exact number of people who contribute to a single product." (Interviewee 4)

Reconfiguring

A typical microfoundation, *knowledge integration*, was evident in several cases (Enterprises A, D, G, J). Designer integration of new skills through knowledge created through collaborations was actively used in the case of a sustainable accessories brand:

"<…> The point is that we became interested in an alternative material for leather. <…> but they are completely unrecyclable because their composition includes such materials as, for example, not only in Lithuania, <…> but also in Europe there is no place where such material could be recycled. This is a huge problem." (Interviewee 9)

Organizational restructuring as a microfoundation was rare in the cases, as they are micro or small enterprises; thus they seldom mentioned any important structural changes (Enterprises A & E). For example, a sustainable knitwear brand was only able to deploy organizational restructuring after a major investment:

"This investment significantly helped grow both the team and the enterprise, thus enabling it to continue growing. That's when I joined the team after receiving the investment, and the team grew by more than 100 percent. Such a change in financial resources allowed the enterprise to invest in human and physical resources, contributing to business expansion and higher profit generation." (Interviewee 7)

To summarize, micro foundations in relation to sensing were most evident in the cases with a major focus in idea generation for sustainability, customer feedback and engagement, as well as experiential learning. With regards to seizing, niche product and/or service manifested in the cases most. Configuring capabilities were an essential part of the cases with a clear long-term vision and mission on sustainability, as well as extended team compilation. Whereas reconfiguration was least evident in all the cases.

Table 3

Main dynamic capabilities of sustainable fashion MSMEs and their micro foundations

Dynamic capability	Micro foundation	Frequency	Examples (Quotes)
Sensing	Scanning the wider business environment	11	*"'Invega' communicates now, and also in the past year during the 'Login' [business conference] that they [investors] are not planning to invest in any unsustainable businesses." (Interviewee 7)*
			"It can be reading Instagram posts, it can be Vogue, magazines, it can be professional literature that explores more deeply, it can be podcasts every few days. There is really a lot of that information." (Interviewee 9)
	Customer feedback and engagement	15	*"Our main focus is on style and addressing the customer's needs. When we see that a customer cannot find a specific product from us that they desire, we create a product based on their requirements." (Interviewee 4)*
			"Suppose you don't have a horizontal handbag with a long handle. Let's say several women have asked you this and you take it into account." (Interviewee 9)
	Knowledge creation	4	*"<…> I gave the first lecture on sustainability, three hours from A to Z, why we talk about it, why it is important." (Interviewee 13)*
			"I taught a few students here [in the studio] with my mother." (Interviewee 14)
	Idea generation for sustainability	16	*"It would be a good idea to set up a studio in [X small city] for fittings, so that customers not only have the experience of getting clothes tailored and buying them, but also have the opportunity to enjoy a travel and resort experience." (Interviewee 4)*
			"We are thinking about including some creator in the creation of the shirts, we just need to find a suitable creator where we can do it together some kind of design, but I think it's in the near future, and we'll definitely make one." (Interviewee 11)
	Experiential learning	14	*"However, after experiments and discussions with experts <…>, I learned that this [coconut leather] is not a sustainable solution as you can't apply secondary use strategy for the coconut leather bag." (Interviewee 14)*
			"I often say: "experiment, try, it won't work, it won't work," because they say "we are not sure that it will work." I say: "never mind, let's try." (Interviewee 6)
	Material sourcing	8	*"The aim is to produce accessories of the same quality in the future, using only 100 percent recycled fibers." (Interviewee 1)*
			"This is first of all, I select the materials very much, I look at the composition because, first of all, if the composition is bad, I will not sew, if it is a poor product, say, a lot of polyester, then I simply will not be able to sew." (Interviewee 6)
Seizing	Strategic decision making	9	*"I think we will simply lose a lot of customers and competitive advantage. We are definitely considering it. If there is no progress in time, it will be necessary to look for other manufacturers." (Interviewee 8)*

Dynamic capability	Micro foundation	Frequency	Examples (Quotes)
			"Two years ago, I just upcycled a jacket for myself, and just shared on Instagram – I received so many positive reactions, it was really surprising, and then I realized that people had changed, I just sensed it in the air. <…> Then I made a decision to go for upcycling." (Interviewee 13)
	Strategic collaboration	13	*"We are collaborating with the X museum, which also serves an educational function, with other sustainable brands. This way, we are expanding our visibility and educating people about sustainability." (Interviewee 1)*
			"More and more people are getting involved, especially right now. I receive a lot of emails from students. Next week, one guy will join us for an internship to contribute to the design. There is a significant increase in students reaching out, showing interest in interviews, and contributing to the design process." (Interviewee 4)
	Technological platforms and software	10	*"We will create more of such photos [in the social media] with messages specifically addressing environmental issues." (Interviewee 5)*
			"The main thing is social media, communication, <…>, to prove we work transparently, we are communicating it through Instagram, Facebook, about the product's origin, its journey." (Interviewee 8)
	Niche product/service	21	*"Our product is completely different – it is a conceptual garment." (Interviewee 2)*
			"I think that we are a really different product from whatever is available on the market, because, in fact, when you need to find our competitors that really match our business model, it is difficult to find exactly those that make to order, that embroider initials <…>." (Interviewee 11)
	Business model innovation	8	*"According to the made-to-measure model, which is our approach, we have standard sizes, and we make minimal adjustments remotely." (Interviewee 4)*
			"Our model is such that we produce each item only upon receiving an order... We do not engage in mass production. When a person places an order, s/he needs to be willing to wait for the product to be made within 5 –10 days. Then, we customize the item specifically for them, and they can choose such options as the length of the sleeves, and we offer options like 'tall' and 'petite'." (Interviewee 11)
Configuring	Clear long-term vision and mission on sustainability	13	*"We created our sustainable [accessory] because of our personal values; we put a lot of effort in living in a more sustainable and environmental way." (Interviewee 1)*
			"I think if it weren't for this sustainability aspect, which encompasses social, environmental, and economic factors, the enterprise probably wouldn't have been able to impress investors." (Interviewee 7)
	Extended team compilation	15	*"I hire construction services <…>, followed by sewing services from a small sewing shop. Several individuals work there, and I am uncertain about the exact number of people who contribute to a single product." (Interviewee 4)*
			"We already organize the production in different sewing shops, depending on the project. As tailors, each tailor specializes in a different range, so we have, in fact, a large circle of partners. These are material suppliers, tailors, packaging... Everything related to the entire journey of the clothes." (Interviewee 15)
Reconfiguring	Knowledge integration	7	*"We had a student who had finished fashion design, so she helped us a little, maybe at the very beginning in terms of understanding of the disassembly of clothes, even to this level, because we didn't even know how to disassemble jeans there." (Interviewee 5)*
			"<…> The point is that we became interested in an alternative material for leather. <…> but they are completely unrecyclable because their composition includes such materials as, for example, not only in Lithuania, <…> but also in Europe there is no place where such material could be recycled. This is a huge problem." (Interviewee 9)
	Organizational restructuring	2	*"<…> maybe more than 5 years ago <…> we were like a resale platform, where we had our accessories line, <…>… this one with recycled materials." (Interviewee 1)*
			"This investment significantly helped grow both the team and the enterprise, enabling it to continue growing. That's when I joined the team after receiving the investment, and the team grew by more than 100 percent. Such a change in financial resources allowed the enterprise to invest in human and physical resources, contributing to business expansion and higher profit generation." (Interviewee 7)

Discussion

Strategic innovation together with values integration in the early innovation process and followed by sustainable business model innovation are viewed as essential in the transition towards a more sustainable fashion (Abbate et al., 2023). However, the emergence of sustainability values based strategic innovation development in fashion MSMEs which comprise a large part of the fashion industry is lagging behind. To bridge this research gap, the present study conducted semi-structured interviews with sustainable fashion MSMEs to explore the peculiarities of dynamic capabilities behind strategic innovation processes oriented towards sustainability. By providing a comprehensive understanding of the strategic innovation processes through the perspective of dynamic capabilities, this study contributes to the strategic innovation field by highlighting the factors related to a more successful transition towards the sustainable fashion. In particular, it was found that sustainable fashion MSMEs develop strategic innovations through their sustainability values. Majority of dynamic capabilities were manifesting through the sustainability values. For example, sensing and seizing activities were mostly activated through the sustainability values perspective. With a clear set of internal sustainability values, enterprises were highly motivated in overcoming various challenges in their businesses (Niinimäki, 2015). Thus, it is critically important to extract sustainability values that can foster strategic innovations more effectively in MSMEs despite the resources constraints that it is often a significant barrier (Peters & Simaens, 2020). Other important factor revealed by empirical analysis was that sustainable fashion enterprises went beyond traditional relationships with their partners (Huse & Gabrielsson, 2012). In most cases, MSMEs formed extended team based on their sustainability values that contributed to the successful development of strategic innovations. Extended team compilation driven by sustainability values also played a critical role in experiential learning, which is considered as a critical factor towards the transition to sustainability and circular economy (Bocken *et al.,* 2018).

Empirical results in this study are in line with other empirical findings regarding sustainable (and circular) fashion fields with the fact that strategic innovation processes from the perspective of dynamic capabilities are less structured, more fluid and overlapping (Elf *et al.,* 2022). Enterprises are rather in a continuous change of 'becoming' (Ambrosini & Bowman, 2009). Thus, these results are in contrast to the empirical results by Da Giau et al. (2019), where the importance of routines and structured processes in large firms is critical.

However, what is in contrast is that unlike the empirical results obtained by Elf et al. (2022), MSMEs in the sample of this study were found to combine both sustainability values-based innovations together with economic profit. Case enterprises acknowledged that lack of managerial competencies in growing the business is a critical factor hindering a more efficient transformation towards sustainable fashion, and that they cannot expect success just because they are oriented towards sustainability. In other words, business success is even harder as there is need to integrate values in ecological, socio-ethical, and economic dimensions (otherwise, they cannot position themselves as a sustainable fashion brand, so they lose competitive advantage) and strive for entrepreneurial success.

In relation to strategic innovation and a broader scope of the literature on entrepreneurship, this research highlights the importance of niche innovation in the sustainable fashion context, which is in line with the literature (Demirel & Danisman, 2019). The ability to identify an industry gap and fill it with niche innovations mostly stemming from sustainability values was evident in most case enterprises and contributed significantly to the success of the enterprises.

Conclusions

The aim of this article was to reveal the specific sustainability fashion values and how sustainable MSMEs in Lithuania advance the sustainable fashion through the lens of dynamic capabilities. The paper was initiated by identifying fashion MSMEs which develop strategic innovations in the sustainable fashion context to account for industry specific practices. The abductive approach to data collection and analysis drawing on the sustainable fashion values and dynamic capability literature allowed insights how sustainable fashion enterprises manage to develop innovative solutions that are aligned strategically with their internal and external sustainability values. This study empirically identified the key sustainable fashion values pursued in strategic innovation development within the MSMEs. Among the socio-ethical values, transparency, employing sensitive social groups, education, affordable price, and certificates and standards, were identified. Ecological values such as the usage of sustainable materials, limited production, sustainable packaging and minimizing logistics were empirically determined. Regarding the economic values, the quality and economic longevity of a product, after-use strategy, unisex and universal clothes design, local/national identity, local supply chain, and contribution to the national fashion industry, were identified. Thus, this study contributes to the sustainable fashion literature by extracting clear sustainability values that can more efficiently enable enterprises to pursue their goals.

This paper also contributes to the strategic management literature by identifying fundamental microfoundations that allow sustainable fashion enterprises to develop dynamic capabilities enabling them to successfully compete in the market. In the sensing phase, scanning the wider business environment, customer feedback and engagement, knowledge creation, idea generation, experiential learning, and material sourcing were identified. Regarding seizing, strategic decision making, strategic collaboration, technological platforms and software, niche product, business model innovation were confirmed. In the configuring phase, clear long-term vision, and mission on sustainability and extended team compilation were determined. In reconfiguring, knowledge integration and organizational restructuring were identified.

Managerial Implications

In terms of the empirical results, a key observation was made on the lack of managerial capabilities that are crucial for sustainability in fashion enterprises (Wong & Ngai, 2021). Micro and small enterprises should take advantage of participating in design programs or (pre)accelerators where they could gain managerial competencies or consultancy to scale up their businesses. Such events could also bring financial benefits that such enterprises are in need of, as well as to promote their brand more broadly and even find investors.

To overcome the barrier that the sustainable fashion is related with being not stylish or looking trashy (for example, upcycled clothing), MSMEs should invest more in stylish and aesthetic design solutions, ensure the quality of the product, which would ensure economic profit success. In addition, it is recommended to promote products via collaborations with micro-influencers.

Regarding managerial implications, MSMEs strongly rely on the national fashion industry, especially on the suppliers. They need to find ways to be more independent and build short-term strategies that would emphasize the internal capabilities by exploiting unique resources and competencies (Basiouni et al., 2019). In the meantime, enterprises can develop long-term strategies by building relationships and scanning for potential partners and materials in their future design activities.

In addition to the obstacles mentioned by the enterprises regarding the national (sustainable) fashion system, it is recommended to initiate a sustainable fashion cluster that would represent different actors of the fashion industry where MSMEs could search for knowledge and skills in fostering their sustainable fashion business.

Limitations and Further Research

The study is not without its limitations as the empirical analysis was limited to Lithuanian micro and small enterprises. Furthermore, this research was based solely on the representatives of the fashion enterprises, which may include some level of bias. Therefore, future studies could be extended to sustainable fashion ecosystem research. Multi-level perspective could be applied to analyze the transition from the whole system perspective to a sustainable innovation ecosystem in fashion. Further research could also delve into the dynamic capabilities differences between the early stage and mature MSMEs (Adam, Strahle, & Freise, 2018), as well as into born sustainable and the ones in transition (Coppola, Vollero, & Siano, 2023). Finally, further research could expand quantitative exploration of the demographical and MSNEs-related characteristics like maturity, market orientation, value network composition and born sustainable or the one in transition, and how this impacts MSNEs sustainable fashion strategic innovations.

Annexes

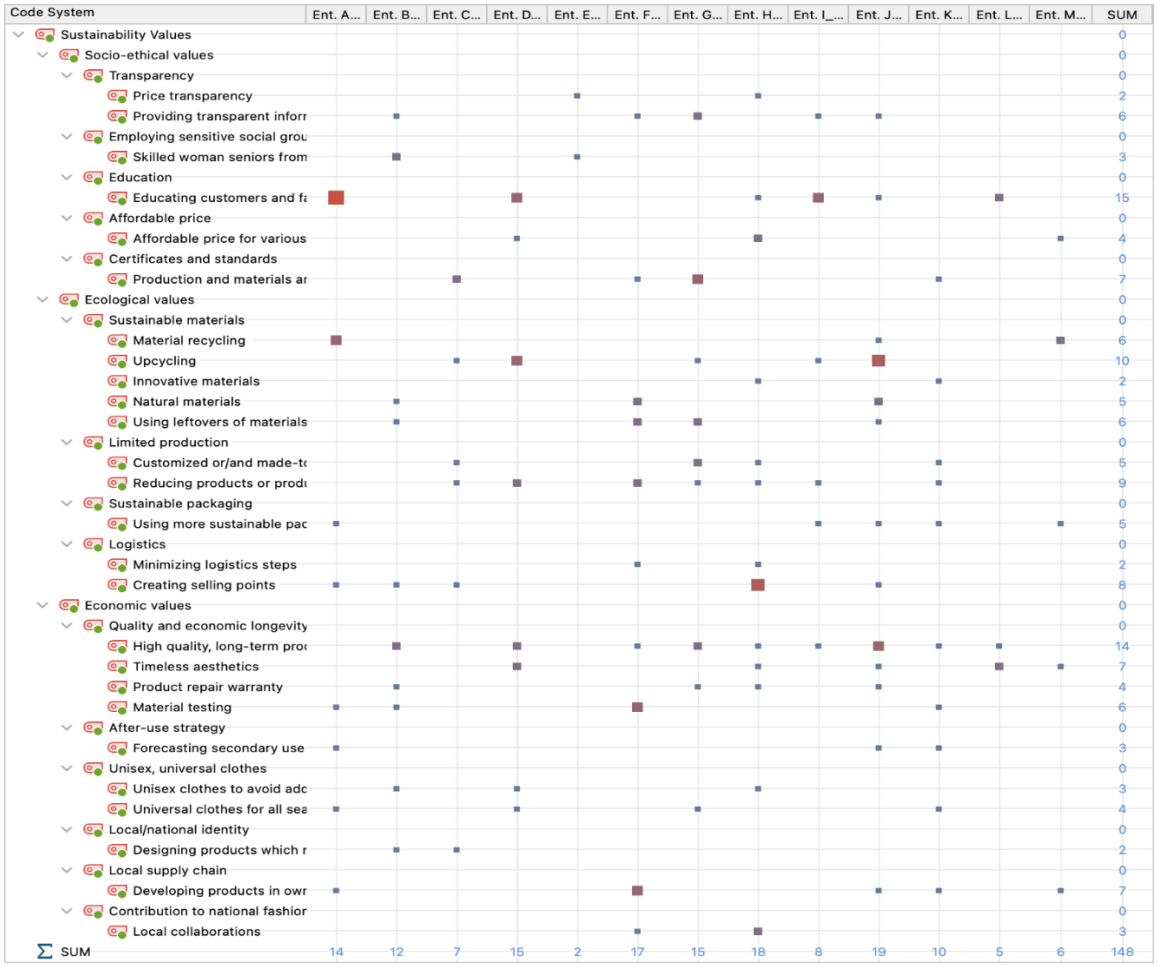

Figure 1. Empirical Results on Sustainability Values

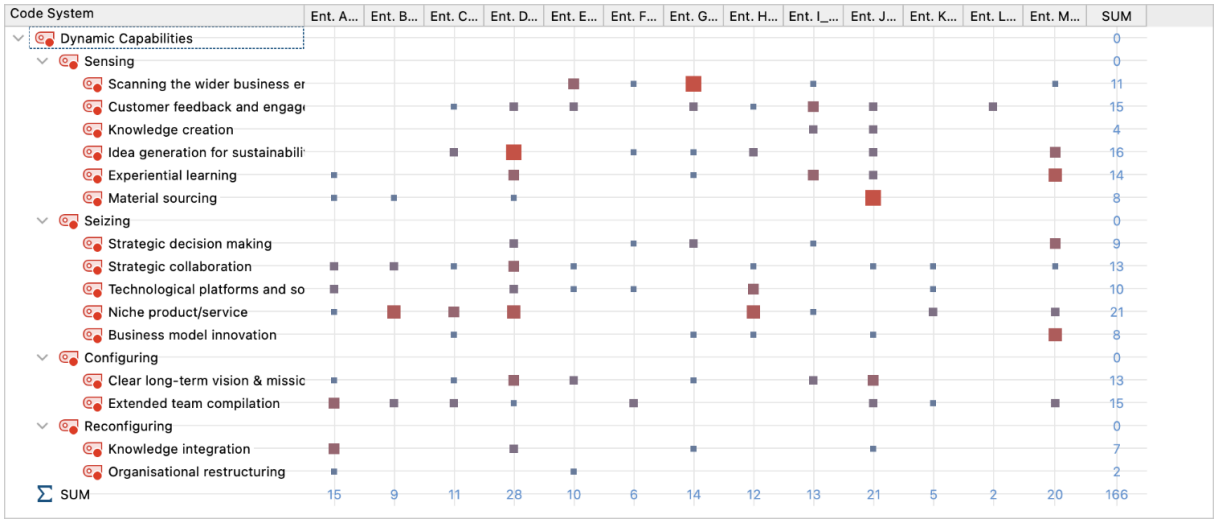

Figure 2. Empirical Results on Dynamic Capabilities

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