



# Strategizing Circular Transitions: Capability Development in Resource-Constrained Firms

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**Abstract.** The transition to circular business models (CBMs) is central to advancing sustainable development and achieving net-zero ambitions, particularly in emerging economies facing both ecological pressures and institutional constraints. This study examines how firms in Vietnam develop and deploy dynamic capabilities to support CBM adoption. Drawing on a multiple-case research design, the paper explores four companies across the textile, food processing, wellness, and construction materials sectors. The findings reveal heterogeneous capability pathways shaped by firm size, stakeholder pressures, and access to external resources. Larger firms engage in formal scanning, investment, and restructuring processes, while smaller enterprises rely on informal partnerships, grassroots innovation, and normative motivations. The study contributes to the literature by extending the dynamic capabilities framework to sustainability transitions in developing economies and offering empirical insights into how capabilities are enacted under resource and institutional constraints. It also provides practical implications for policymakers and business leaders seeking to accelerate circular transitions through context-sensitive capability development strategies.

**Keywords:** Circular business models, Dynamic capabilities, Sustainability transitions, Net-zero, Organizational transformation, Emerging economies.

## 1 Introduction

Amid intensifying environmental degradation, resource depletion, and climate change, the transition toward circular business models (CBMs) has emerged as a central strategy for firms seeking to decouple economic growth from environmental harm. Unlike traditional linear models premised on extraction, consumption, and disposal, CBMs prioritize regenerative design, waste minimization, and the continual reuse of materials (Geissdoerfer et al., 2017). This model aligns closely with global ambitions for net-zero carbon targets and sustainable development, reflected in policy frameworks such as the European Green Deal and the UN Sustainable Development Goals.

In developing countries like Vietnam, where rapid industrialization has imposed significant ecological pressures, CBMs are increasingly seen as both an environmental necessity and a competitive opportunity. The Vietnamese government's National Green Growth Strategy (2021–2030) and commitments at COP26 underscore the nation's intent to foster low-carbon, resource-efficient economic development. However, the

implementation of CBMs at the firm level remains uneven, with enterprises facing numerous structural, financial, and institutional challenges (Nguyen & Nguyen, 2023). This raises a critical question: how do firms in such contexts mobilize internal capabilities to redesign their business models in line with circularity and sustainability imperatives?

The existing literature on CBM adoption has largely concentrated on technological innovation, regulatory incentives, and market enablers (Bocken et al., 2014; Kirchherr et al., 2017), with relatively less emphasis on the organizational capabilities that underpin these transitions. In particular, the dynamic capabilities (DC) framework—which conceptualizes how firms sense opportunities, seize them through strategic resource commitments, and transform their structures and routines (Teece, 2007; Eisenhardt & Martin, 2000)—offers a valuable lens for examining CBM adoption as an evolutionary and strategic process. Yet, the application of this framework in the context of emerging economies and sustainability-driven transitions remains limited. Prior research often overlooks how dynamic capabilities are enacted in contexts marked by institutional gaps, limited access to green finance, and nascent stakeholder ecosystems (Barreto, 2010; Köhler et al., 2019).

To address this gap, this study investigates how firms in Vietnam develop and deploy dynamic capabilities to enable the transition toward circular business models. Drawing on a multiple-case research design, we examine four firms across diverse sectors—textiles, food processing, wellness products, and construction materials—to explore how sensing, seizing, and transforming capabilities are configured in support of circular and net-zero aspirations. Research Question. How do firms in Vietnam develop and deploy dynamic capabilities to transition toward circular business models and support net-zero goals?

The remaining sections of this study are organized as follows. The next section presents the theoretical framework guiding this research, and Section 3 details the methodology employed. Section 4 focuses on analyzing the results, while Section 5 offers an in-depth discussion of the findings. Finally, Section 6 highlights the theoretical and practical implications of this study, addresses its limitations, and suggests directions for future research.

## **2 Literature review**

### **2.1 Circular Business Models and the Sustainability Transition**

The concept of circular business models (CBMs) has gained significant attention as a strategic response to the limitations of the linear economic paradigm. CBMs aim to close material loops and extend product lifecycles through reuse, remanufacturing, recycling, and regenerative practices. These models enable firms to internalize environmental externalities, reduce resource dependencies, and create new forms of value through sustainable innovation. As such, they are increasingly positioned as a core mechanism for achieving net-zero emissions and long-term ecological resilience (Geissdoerfer et al., 2017; Kirchherr et al., 2017).

Despite the growing appeal of CBMs, their implementation at the firm level presents multiple challenges. The transition often requires redesigning product and service systems, reconfiguring supply chains, and establishing new relationships with consumers and partners. Moreover, firms must balance short-term economic pressures with long-term sustainability commitments. In developing economies, these challenges are further compounded by institutional voids, limited access to green technologies, and inconsistent policy environments (Bocken et al., 2016). These conditions suggest that CBM adoption is not merely a matter of technical feasibility or market readiness but also of organizational capability.

## **2.2 Dynamic Capabilities and Business Model Innovation**

The dynamic capabilities (DC) framework provides a valuable theoretical lens for understanding how firms navigate complex, uncertain, and evolving environments. Dynamic capabilities refer to an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece et al., 1997). The framework identifies three core capability clusters: sensing opportunities and threats, seizing opportunities through resource mobilization, and transforming existing operations and routines to sustain competitive advantage (Teece, 2007).

In the context of business model innovation, dynamic capabilities are essential for enabling firms to depart from established value creation logics and to explore new, often uncertain pathways. Sensing involves scanning for signals related to emerging regulations, technologies, and stakeholder expectations. Seizing encompasses strategic investments, organizational commitments, and experimentation with new configurations of value. Transforming refers to the ongoing adjustments to processes, structures, and cultures that institutionalize change and maintain strategic alignment (Eisenhardt & Martin, 2000).

While the dynamic capabilities literature has expanded considerably in domains such as digital transformation, technological innovation, and internationalization, its application to sustainability and circularity remains emergent. Existing studies tend to emphasize macro-level drivers or sectoral enablers without sufficiently unpacking the microfoundations of capability development within firms engaged in CBM transition (Barreto, 2010).

## **2.3 Toward a Capability-Based View of Circular Transition**

Applying a dynamic capabilities perspective to circular transition helps move beyond static representations of firm adaptation. It frames CBM adoption as an iterative and path-dependent process shaped by the interplay of strategic intent, organizational learning, and environmental complexity. From this perspective, firms must not only respond to external sustainability pressures but also proactively cultivate new routines, relationships, and resource configurations (Lüdeke-Freund et al., 2019).

This capability-based view also foregrounds the heterogeneity of responses across firms. Not all firms possess the same capacity to sense relevant signals, seize emerging opportunities, or transform entrenched structures. Factors such as firm size, industry

positioning, leadership vision, and access to ecosystem support significantly shape how dynamic capabilities are developed and enacted. Particularly in emerging economies, where regulatory systems and support infrastructures for sustainability are often weak or fragmented, firms must draw upon adaptive, relational, and values-based capabilities to pursue circular goals (Bui et al., 2023).

Furthermore, the dynamic capabilities framework provides an integrative structure for examining the alignment between circular ambition and organizational practice. It enables scholars and practitioners to trace how firms translate abstract sustainability goals into concrete actions—through resource allocation, stakeholder engagement, and cultural transformation. In this sense, dynamic capabilities serve not only as instruments of competitive advantage but as foundational mechanisms for embedding sustainability within business strategy (Boons & Lüdeke-Freund, 2013).

While the literature on CBMs has highlighted the importance of innovation, collaboration, and stakeholder engagement, it has yet to fully explore the internal organizational processes that enable or constrain such transitions. Most notably, little is known about how dynamic capabilities are enacted in the early phases of CBM adoption, particularly in emerging market settings. Current knowledge remains fragmented on how firms interpret sustainability signals, navigate resource constraints, and institutionalize change (Nguyen & Nguyen, 2023).

This study addresses this gap by exploring how Vietnamese firms develop and deploy dynamic capabilities across the sensing, seizing, and transforming dimensions. By doing so, it contributes to an enriched understanding of the capability configurations that support circularity under institutional, financial, and operational constraints. The focus on Vietnam provides a valuable empirical context where national policy ambitions for net-zero transformation coexist with diverse firm-level capabilities and innovation practices.

### **3 Methodology**

#### **3.1 Research Setting and Sample**

This study adopts a qualitative multiple-case research design to investigate how firms in Vietnam develop and deploy dynamic capabilities to support circular business model (CBM) adoption and net-zero transition. The case study method is appropriate given the exploratory nature of the research question and the need to capture rich, processual, and contextual insights into organizational capability development. A multiple-case approach allows for analytical generalization and cross-case comparison, thereby enhancing the robustness of theory development. The research was conducted in Vietnam, an emerging economy that is actively pursuing sustainability goals through its National Green Growth Strategy and commitments under global climate accords. However, the institutional, financial, and technological infrastructure for CBM implementation remains underdeveloped, making Vietnam a salient setting for investigating capability-based transitions under constrained conditions.

Four leading companies were purposefully selected across key sectors with varying degrees of exposure to environmental regulation, global value chains, and resource

intensity. These included a large textile manufacturing firm, a medium-sized food processing enterprise, a small herbal tea and wellness company, and a large construction materials manufacturer. These firms were selected based on their engagement with sustainability initiatives, visibility in national or sectoral circular economy forums, and willingness to participate in in-depth qualitative research.

### **3.2 Data Collection**

Data were collected from January to April 2024 through a combination of semi-structured in-depth interviews and archival data sources. The primary data consisted of 15 interviews with CEOs, sustainability managers, operations leaders, and technical staff involved in CBM adoption. Interviews were conducted in Vietnamese, lasted between 60 and 90 minutes, and were audio-recorded and transcribed verbatim. Where appropriate, clarifying questions and follow-up interviews were conducted to deepen understanding of emerging themes. Archival data included company sustainability reports, internal presentations, corporate websites, media releases, and policy documents. These materials were used to triangulate interview data, validate timelines, and contextualize claims made by participants regarding organizational change and circular practices. To ensure consistency and comparability across cases, a semi-structured interview protocol was developed, focusing on three main dimensions: (1) how firms sense environmental and regulatory changes related to circularity, (2) how they seize opportunities through investments and partnerships, and (3) how they transform internal structures, systems, and capabilities.

### **3.3 Data Analysis**

Data were analyzed following the Gioia et al. (2013)'s methodology, which provides a systematic and rigorous approach to inductive theorizing from qualitative data. The analysis proceeded in three main stages. In the first stage, open coding was conducted to identify first-order concepts grounded in the participants' language and expressions. These codes captured specific actions, routines, and perceptions related to dynamic capability enactment.

In the second stage, the research team clustered similar first-order codes into second-order themes that represented more abstract organizational patterns, such as "strategic collaboration" or "capability development." This step allowed for the transition from raw data to theoretically meaningful constructs. In the third stage, the second-order themes were aggregated into three overarching dimensions—sensing, seizing, and transforming—in line with the dynamic capabilities framework. This structure enabled the development of a data structure that not only represented the empirical reality of each case but also provided a clear theoretical scaffold for cross-case comparison.

To ensure the reliability and validity of the findings, intercoder reliability checks were conducted. Two researchers independently coded a subset of the transcripts and compared the emerging codes and themes. Discrepancies were discussed and reconciled through iterative dialogue, leading to the refinement of the coding scheme. Further validity checks included member checking with selected participants to verify interpretations, as well as peer debriefing with external scholars familiar with the topic.

Through this systematic and reflexive approach, the study ensures that its findings are both grounded in empirical reality and capable of contributing to theoretical advancement in the literature on dynamic capabilities and circular economy transitions.

## 4 Findings

### 4.1 Sensing Capabilities in Circular Business Model Adoption

This section presents the findings on how firms develop sensing capabilities to support the adoption of circular business models (CBMs). Drawing on the Dynamic Capabilities framework, we identified three second-order themes—Scouting, Planning, and Establishing Goals—which were observed to varying degrees across the four case firms.

Case A demonstrated a relatively mature sensing capability, characterized by proactive environmental scanning and structured sustainability planning. Scouting activities were formalized through international memberships, enabling early awareness of regulatory and market shifts. As the Sustainability Director explained, “We joined a regional alliance on sustainable sourcing, and that’s where we learned about EU green regulations that could affect our exports within the next five years.” This outward-looking orientation was complemented by internal planning mechanisms, including regular diagnostics of resource consumption. According to the Operations Manager, “We calculated our water footprint across different production lines to know where the waste was.” These sensing practices were strategically anchored by institutional policy, with the CEO stating, “We translated the national circular economy roadmap into our departmental KPIs.”

Case B exhibited a more reactive posture in its sensing approach. Scouting was driven primarily by external actors, particularly consultants who provided updates on government initiatives. The Technical Manager remarked, “We heard from our consultants about the government’s incentives for circular initiatives, especially in food waste reduction.” Although formal planning mechanisms were limited, there was evidence of informal internal discussions around sustainability. The CEO noted emerging ambitions, especially in packaging innovation: “We aim to switch 80% of our packaging to compostables by 2027.” However, the absence of structured diagnostics constrained the depth and reliability of the planning process.

Case C revealed a community-oriented approach to sensing, shaped by partnerships with NGOs and development agencies. As the founder described, “We attend local forums organized by NGOs who talk about regenerative practices—it’s not formal, but it gives us ideas.” Planning activities were supported externally through donor initiatives. One such instance was cited by the co-founder: “We did an energy audit last year supported by a local EU-funded project.” Although less formalized, the firm articulated clear sustainability intentions grounded in ethical and regenerative principles: “We’re not just aiming for profit—we want to regenerate the land we farm on.”

Case D displayed the most advanced sensing capacity among the four cases. A dedicated ESG unit was responsible for systematic environmental scanning, using

digital dashboards to track global regulatory developments. The ESG Director shared, “We have a monthly dashboard of regulatory updates from both Vietnam and the EU.” Planning processes were equally sophisticated, incorporating predictive assessments through life cycle analysis (LCA) software: “We simulate carbon emissions at the design phase,” the Technical Officer explained. These practices fed directly into clearly defined, time-bound sustainability goals. The CEO stated, “Our board approved a carbon neutrality roadmap to 2040, broken down into five-year intervals.”

The cross-case findings reveal important divergences in how firms in the Vietnamese context build sensing capabilities for CBM adoption. Scouting activities were more institutionalized in Cases A and D, both of which are larger enterprises with export-oriented operations. Their integration into global networks facilitated early exposure to circularity mandates and market preferences. In contrast, Cases B and C—both SMEs—relied on ad hoc or externally mediated knowledge flows, reflecting limitations in resource access and absorptive capacity. Planning processes followed a similar pattern. Firms with formal planning systems (Cases A and D) conducted internal diagnostics to identify inefficiencies and develop structured responses, aligning closely with the theoretical proposition that sensing requires not only awareness but evaluative capabilities. By contrast, Cases B and C depended on sporadic or externally facilitated assessments, which, while helpful, limited their ability to self-direct the CBM transition. The establishment of sustainability goals was evident in all four cases, though motivations and levels of formalization varied. In Cases A and D, goals were informed by both policy mandates and market competitiveness, demonstrating an alignment between external sensing and internal strategic integration. Cases B and C, although lacking in formal mechanisms, expressed values-driven aspirations that shaped goal formation—particularly evident in Case C’s regenerative orientation. This suggests that normative and ethical motivations may also play a key role in goal setting within resource-constrained contexts.

## **4.2 Seizing Capabilities for Circular Business Model Adoption**

The seizing dimension reflects how firms commit resources, establish partnerships, and test innovative solutions to enable the transition toward circular business models (CBMs). The findings revealed three dominant themes across the cases: Resource Mobilization, Strategic Collaboration, and Circular Business Experimentation.

Case A exhibited a proactive approach to resource mobilization, driven by the firm’s export orientation and compliance pressures from international buyers. The Head of Sustainability stated, “We reallocated 10% of our annual CAPEX to fund machinery upgrades for fabric recycling.” The firm also secured co-financing through a public-private partnership initiative aimed at green transformation in the textile sector. In terms of strategic collaboration, the firm partnered with logistics providers to create a closed-loop system for textile scraps. As the Operations Director noted, “We work directly with a local recycler who picks up offcuts weekly and sends them to our supplier for reprocessing.” The firm was also engaged in business experimentation, launching a pilot product line made from 100% recycled fibers. The Marketing Manager explained,

“We tested a capsule collection of recycled garments in Hanoi and Ho Chi Minh City—customer response was very positive.”

Seizing capabilities in Case B were more limited but emerging. Financial constraints shaped a cautious approach to resource mobilization, with efforts focused on small-scale packaging redesign. “We’ve started budgeting specifically for eco-packaging, even if it costs more in the short run,” said the CFO. For strategic collaboration, the firm engaged informal partnerships with community-based waste collectors. The Production Manager remarked, “We give our organic waste to a composting group—there’s no formal contract, but it works.” Circular experimentation was evidenced in a refill scheme for a juice product piloted in local stores. “We trialed a deposit-return model with a few outlets in Da Nang. It’s still early, but it helps us learn,” noted the CEO.

Despite being resource-constrained, Case C demonstrated a strong commitment to mobilizing resources for sustainability. The founder explained, “We applied for a grant that helped us build a composting facility on our farm—otherwise, we couldn’t afford it.” The firm also redirected a portion of its revenue to develop eco-packaging. Strategic collaboration was embedded in its value chain ethos. “Our farmers are part of the design—we co-create composting and harvesting practices,” said the co-founder. The firm actively engaged in business experimentation, having introduced a reusable jar system in its urban retail channels. “We encouraged customers to return jars for a refill discount. The uptake was modest but promising,” the founder shared.

Case D leveraged its institutional ties and capital access for advanced resource mobilization. “We issued a green bond to finance circular equipment for our cement division,” said the CFO. The firm had also secured international development financing for its circular innovation roadmap. Strategic collaboration was formalized through supplier partnerships. “We have NDAs with three suppliers to co-develop recycled aggregates,” reported the Technical Manager. In terms of experimentation, the company piloted modular building prototypes incorporating recycled materials. The CEO stated, “We’ve built demo units using reclaimed inputs to showcase our circular capabilities to public-sector buyers.”

The cases demonstrate divergent seizing capabilities, shaped primarily by organizational size, access to finance, and sector-specific institutional environments. Resource mobilization was most advanced in Cases A and D, which benefited from established financing structures, international certifications, and buyer pressure. SMEs (Cases B and C), by contrast, relied heavily on targeted grants or informal resource reallocation, underscoring the importance of donor and government support for circular transitions in smaller firms. Strategic collaboration emerged as a vital mechanism across all cases, though its structure varied. Larger firms developed formal agreements and strategic alliances within their supply chains, often with defined contractual or R&D commitments. In contrast, smaller firms engaged in more community-based, informal collaborations, highlighting relational trust and grassroots innovation as alternative enablers of circular partnerships in resource-limited settings. Circular business experimentation was evident across all four cases, though with differing levels of institutionalization and risk appetite. Larger firms used pilots to test modularity and scale recycled content in high-volume products, whereas smaller firms emphasized



low-cost, customer-facing initiatives such as refill models or reusable packaging. Notably, experimentation was often tied to market validation, branding, and learning, suggesting its centrality in the early stages of CBM implementation. In sum, while all cases exhibited elements of seizing capabilities, the strategies and intensity of resource deployment, partner engagement, and business experimentation were contextually shaped by financial capacity, stakeholder pressures, and organizational learning trajectories. The findings reinforce the need for differentiated policy instruments and ecosystem support to enable diverse firms to seize circular opportunities effectively.

#### **4.3 Transforming Capabilities for Circular Business Model Institutionalization**

The transforming dimension captures how organizations internally reconfigure structures, develop human capabilities, and embed sustainability objectives to institutionalize circular business models (CBMs). Across the cases, three key themes emerged: Organizational Reconfiguration, Capability Development, and Institutional Embedding.

Case A demonstrated a structured transformation process, beginning with organizational reconfiguration. The Sustainability Director noted, “We created a cross-departmental CE team that includes members from R&D, operations, and procurement to drive alignment.” The reorganization aimed to bridge previously siloed units and facilitate CBM implementation. In terms of capability development, the firm introduced targeted employee training on eco-design and circular metrics. As described by the HR Manager, “We ran two in-house workshops this year, one focused on life cycle thinking and another on sustainable sourcing.” Institutional embedding was evident in revised performance systems and reporting structures. The CEO stated, “We’ve embedded carbon and waste KPIs into department scorecards, and our ESG reports now include circularity indicators.”

Transformation in Case B remained at an early stage. Efforts at organizational reconfiguration included modest role shifts but not formal restructuring. The Operations Manager shared, “We informally assigned one staff member in each department to report on green initiatives.” Capability development was limited to short-term external training. “Two of our managers attended a circularity workshop by the Ministry of Industry,” said the General Manager. However, institutional embedding had begun through the revision of some operational metrics. “We added a waste-to-output ratio to our monthly performance dashboard,” the Production Head explained.

Case C approached transformation through a relational and mission-driven lens. Organizational reconfiguration took the form of flexible role integration rather than structural change. “Everyone on our team contributes to our CE goals—it’s part of our weekly meetings,” said the founder. For capability development, peer learning and informal mentoring were key. “We don’t have formal training, but we learn from each other and from our NGO partners,” explained the co-founder. The firm also engaged in institutional embedding, particularly in its communication and reporting practices. “We started tracking how many jars are returned and reused each month—it’s in our social impact report,” said the Pperations Coordinator.

Case D displayed the most advanced transformation capabilities. Organizational reconfiguration involved a formal restructuring of business units to embed sustainability within core operations. “We merged our CSR unit with operations to create a new Sustainability and Innovation Division,” explained the HR Director. Capability development included certification-based training and external consultancy support. The ESG Director elaborated, “We sent 12 managers to a circular economy certification program co-organized with a European agency.” Institutional embedding was highly formalized. Sustainability targets were integrated into executive compensation structures and linked with international reporting standards. The CEO stated, “We aligned our reporting with the GRI and added a circularity index tailored to our material flows.”

The cross-case comparison reveals divergent pathways and levels of maturity in the transformation of organizational systems to support CBM adoption. Organizational reconfiguration ranged from informal adaptations in SMEs (Cases B and C) to formal restructuring in larger, export-oriented firms (Cases A and D). In the latter, circularity was structurally embedded into functional divisions, enhancing internal coordination and legitimacy. Capability development was consistently recognized as a foundational enabler, though operationalized differently. Large firms pursued structured, often externally accredited training, while smaller enterprises relied on peer learning, donor-led initiatives, or self-guided experimentation. This divergence reflects disparities in resource access, but also reveals alternative, socially embedded forms of capability accumulation in more agile, values-driven firms. Institutional embedding was the most varied dimension. While all firms showed signs of aligning their internal metrics with sustainability principles, only the more advanced cases (A and D) demonstrated full integration into performance systems and ESG reporting. For smaller firms, embedding was more symbolic or narrative-driven, oriented toward transparency and stakeholder communication rather than formal governance. Collectively, these findings suggest that transformation toward circularity is not merely a technical challenge, but a deeply organizational one. The ability to reconfigure structures, foster circular competences, and institutionalize new norms is shaped by strategic intent, organizational agility, and access to external knowledge systems. In the Vietnamese context, where institutional frameworks for sustainability are still evolving, firm-level transformation efforts are highly dependent on both endogenous leadership and exogenous scaffolding.

## **5 Conclusion**

### **5.1 Firm-Level Pathways to Circularity**

This study examined how four Vietnamese firms across manufacturing and agrifood sectors enact dynamic capabilities to adopt circular business models (CBMs) in response to growing sustainability imperatives and policy shifts toward net-zero development. The findings reveal significant variation in how firms sense, seize, and transform capabilities to navigate this transition, shaped by organizational size, sectoral context, and resource access.

First, sensing capabilities—the ability to identify and interpret opportunities and pressures related to circularity—were more advanced in large, export-oriented firms (Cases A and D), which benefited from global buyer pressure, regulatory exposure, and membership in sustainability networks. These firms institutionalized environmental scanning, conducted internal diagnostics, and formalized sustainability goals. In contrast, SMEs (Cases B and C) relied on informal networks, donor-led diagnostics, and normative motivations. This divergence is consistent with prior research showing that firm-level sensing activities are conditioned by institutional exposure and absorptive capacity, particularly in emerging economy contexts (Teece et al., 1997; Nguyen & Nguyen, 2023). Nevertheless, all firms recognized the relevance of circularity, suggesting a broad awareness of its strategic and ethical significance (Kirchherr et al., 2017; Bui et al., 2023).

Second, seizing capabilities—reflecting the commitment of resources and strategic partnerships—were operationalized through both formal and informal mechanisms. Larger firms mobilized capital through green bonds and corporate reallocation, engaged in structured supplier partnerships, and piloted product innovations at scale. Smaller firms, while constrained financially, demonstrated agility in forming grassroots collaborations and testing low-cost reuse and refill models. These findings highlight that seizing opportunities for CBM implementation in emerging economies requires not only capital but also creativity in partnership and experimentation—an observation that aligns with studies emphasizing the importance of flexible and exploratory strategies for sustainable innovation (Boons & Lüdeke-Freund, 2013; Bocken et al., 2016).

Third, transforming capabilities—which involve reconfiguring organizational structures and embedding new practices—proved to be the most differentiated across cases. Case D, for instance, restructured its business units and aligned ESG metrics with executive KPIs, while Case C embedded circular principles through flexible team roles and informal learning. These differences reflect the path-dependent and socially embedded nature of transformation capabilities, especially in contexts where formal training and sustainability infrastructure are still maturing (Barreto, 2010; Lüdeke-Freund et al., 2019). The data suggest that successful transformation requires both structural alignment and internal capability development, particularly in training, cross-functional integration, and reporting mechanisms (Eisenhardt & Martin, 2000).

Taken together, these findings support the view that dynamic capabilities are not uniformly manifested across firms but are deeply contextualized within each organization's strategic intent, resource base, and institutional setting (Teece, 2007; Barreto, 2010). The Vietnamese context reveals a dual dynamic: while larger firms are motivated by regulatory and market incentives, SMEs are often driven by social and ethical imperatives, relying on adaptive and relational capacities (Nguyen & Nguyen, 2023; Bui et al., 2023). Thus, the development of dynamic capabilities for CBM transition is not only about managerial orchestration but also about institutional scaffolding and ecosystem engagement (Köhler et al., 2019).

## 5.2 Theoretical Contributions

This study makes several theoretical contributions to the literature on dynamic capabilities and circular economy (CE) transitions in emerging market contexts. First, it extends the application of the dynamic capabilities (DC) framework—traditionally examined in technology-intensive or developed economies—to the underexplored domain of circular business model (CBM) adoption in developing countries. While prior studies have emphasized the DC constructs of sensing, seizing, and transforming in contexts of innovation or digital transformation (Teece, 2007; Eisenhardt & Martin, 2000), this study foregrounds how these capabilities are mobilized in response to circularity and net-zero imperatives. The findings highlight not only the presence of these capabilities but also their distinct manifestations shaped by firm size, institutional support, and stakeholder logics (Barreto, 2010; Köhler et al., 2019).

Second, the study advances the theoretical understanding of how firms in resource-constrained environments reconfigure and improvise dynamic capabilities. Unlike the linear and formalized processes often described in the literature (Teece et al., 1997), this research shows that SMEs engage in relational sensing, informal seizing, and values-driven transformation. These findings challenge the often-technocratic framing of capability development and suggest that dynamic capabilities can be heterogeneous, adaptive, and socially embedded—particularly when institutional scaffolding is limited (Nguyen & Nguyen, 2023; Bocken et al., 2016). This aligns with recent calls to examine how firms in emerging economies creatively respond to fragmented support environments by leveraging informal networks and context-specific learning.

Third, this research contributes to theorizing the micro foundations of transformation by demonstrating how organizational reconfiguration, capability development, and institutional embedding co-evolve during CBM adoption. The empirical evidence from multiple cases reveals that transforming is not a residual or passive phase but a deliberate and resource-intensive process, particularly in settings where circularity requires cross-functional coordination, workforce upskilling, and the redefinition of performance systems (Lüdeke-Freund et al., 2019; Boons & Lüdeke-Freund, 2013). This contribution emphasizes the strategic significance of transformation as a capability, rather than because of sensing and seizing activities alone.

## 5.3 Practical Contributions

From a managerial and policy perspective, this study offers several practical contributions relevant to firms, support organizations, and public agencies working toward sustainable transitions in emerging economies. First, the study demonstrates that dynamic capabilities for circularity are not uniformly developed and require targeted support. Larger firms benefit from international exposure, regulatory visibility, and access to financing instruments such as green bonds. However, SMEs can play an equally important role in Vietnam's net-zero transition if supported through capacity-building initiatives, grant-based financing, and intermediary-led knowledge platforms. Public and donor institutions should thus design differentiated policy instruments tailored to the needs of SMEs, recognizing their unique constraints and relational strengths.

Second, for practitioners, the findings offer actionable insights on how to operationalize CBM adoption across three phases. In the sensing phase, firms must invest in external scanning and internal diagnostics. In the seizing phase, they should engage in ecosystem partnerships and iterative experimentation. Finally, in the transforming phase, circularity must be embedded into structures, metrics, and talent development systems. Firms seeking to advance from intent to institutionalization must treat these processes not as linear steps but as overlapping and mutually reinforcing.

Third, the study suggests that organizational transformation toward sustainability requires not only structural change but cultural alignment and learning. Companies with strong values-based leadership—particularly social enterprises—demonstrated the ability to pursue circular goals despite resource limitations. This indicates that capability development is not only a question of resource endowment but also of strategic intent and internal alignment. For sustainability managers, this reinforces the importance of cultivating cross-functional engagement, employee learning, and narrative coherence.

#### **5.4 Research Limitations and Future Research Directions**

While this study offers valuable insights into how firms in Vietnam develop dynamic capabilities to transition toward circular business models, several limitations warrant acknowledgment and offer avenues for future research. First, the study is based on a qualitative multiple-case design with four firms operating in specific sectors—textiles, food processing, wellness products, and construction materials. While the cases were purposefully selected to reflect sectoral and organizational diversity, the findings may not be fully generalizable to other industries or regions within Vietnam. Future studies could broaden the scope by incorporating additional sectors such as electronics, retail, or logistics, where circularity imperatives are increasingly prominent.

Second, the data are cross-sectional in nature, capturing firms at different stages of their circular transition. As dynamic capabilities unfold over time, longitudinal research designs would allow future scholars to trace how sensing, seizing, and transforming evolve in response to internal learning and external shifts. Such studies could examine whether early experimentation leads to institutionalization or whether capability development stalls due to contextual or organizational constraints.

Third, this study primarily relied on managerial perspectives, which, while insightful, may overlook divergent views across hierarchical levels or among operational staff. Incorporating a broader range of internal stakeholders—such as frontline workers, sustainability officers, or board members—would provide a more nuanced understanding of how dynamic capabilities are enacted, contested, or reframed within the organization.

Fourth, the study focuses on the firm-level lens, whereas the adoption of circular models is often embedded within broader ecosystems of regulators, intermediaries, suppliers, and civil society actors. Future research could adopt a network or ecosystem perspective to explore how dynamic capabilities are distributed or co-created across organizational boundaries, particularly in the context of public-private partnerships or value chain coalitions for circularity.

Finally, while this study employs the dynamic capabilities framework, further theoretical enrichment may be achieved by integrating complementary perspectives such as institutional theory, stakeholder theory, or practice-based views. Doing so would allow scholars to interrogate not only how capabilities are developed but also how they are shaped by institutional logics, power dynamics, and everyday practices in sustainability transitions.

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