

PICCOLA IMPRESA

SMALL BUSINESS

RIVISTA INTERNAZIONALE DI STUDI E RICERCHE

Proceedings 5th PISB Workshop

**BEYOND THE CRISIS: WHAT IS
THE FUTURE FOR SMALL
BUSINESSES?**

Challenges, opportunities and lessons
learned

3-4 December 2021

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Innovative SMEs' circular economy practices amidst the COVID-19 crisis: A policy incentives focus

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Keywords – Circular economy, innovative SMEs, Sustainability, COVID-19-related incentives, Resource-based view

Paper type – Long Abstract

1. Objectives

Specific interventions enabling innovative SMEs to access finance during crisis are of extreme relevance for their survival. Governments' incentives related to SMEs during the pandemic have generally focused on grants, deferral of tax and debt payments, and the extension or simplification of the provision of loan guarantees to enable SMEs accessing credit (OECD,

2020). At the European level, policy response to crisis is routed towards the establishment of a Recovery plan for the years 2021-2027 that will prioritize specific funds for the transition to a green climate-neutral economy. Regarding the SMEs' context, the transition toward sustainability has also been widely recommended by European Institutions due to their relevant environmental impact (Bontoux and Bengtsson, 2015). Thus, COVID-19 pandemic could represent an opportunity for SMEs to innovate their strategy around sustainability and survive the crisis (Pencarelli et al., 2020; Ibn-Mohammed et al., 2021; Prieto-Sandoval et al., 2021). To the actual state of the art, the role of public policies to provide financial supports to sustainability innovation in time of COVID-19 crisis is under-investigated, especially when focusing on innovative SMEs. Based on this premise, and considering the Italian context, this study aims at analyzing how COVID-19-related incentives issued through the Law 77/2020 (Recovery Decree) focused to innovative SMEs have supported circular economy (CE) as sustainability-oriented innovations.

2. Literature review

Steaming from Penrose (1959), Lim et al. (2020) argue that a firm can be considered as a bundle of strategic, physical, financial, human, and organizational resources which are interconnected and co-evolve allowing the firm to grow. During the pandemic, SMEs' entrepreneurs are required to assess the state of things of their businesses, regain the balance within their firms' resource systems, identify and exploit new business opportunities. Lim et al. (2020) also argue that the role of governmental incentives in time of crisis are essential to allow SMEs not only to survive but also to start growing again thanks to investments oriented to support the resources' bundle. Regarding CE, the availability of public funds has been showed to bolster environmental innovations, eco-innovation and ultimately, CE innovations (Scarpellini et al.; 2018; Aranda-Usón et al. 2019; Cecere et.al, 2020; Ghisetti and Montresor, 2020). The extent to what CE innovation is supported by ad hoc strategies, competences and resources' bundle has been object of recent research. For instance, Dey et al. (2020) categorized CE strategies in the following five field of actions: Take, Make, Distribute, Use and Recover. To justify why firms implement CE strategies, the resource-based view of the firm' theory has been used emphasizing the role of physical and organizational resources as well as of competences as enablers of CE. Studies such as the ones of Prieto-Sandoval et al. (2019), Dey et al. (2020) and de Arroyabe et al. (2021) have determined which resources and competences are needed to support CE

strategies in different fields of action. The current paper adopts the above-mentioned approach to investigate the role of COVID-19-related incentives released to innovative SMEs in supporting CE resources, competences, and CE strategies during the pandemic.

2. Method

A survey was administered online in the time span September-November 2020 using Qualtrics package, to the population of Italian innovative SMEs operating in the manufacturing field. 99 questionnaires were returned, for an overall response rate of 23.91%. Strategies, competences, and resources were identified based on the five field of actions presented by the literature. Firms were asked the extent to what they adopt CE strategies and develop resources and competences in each field of action; the answers were organized, based on a 7-points Likert scale (1 = “not at all”; 7 = “completely”). Firms were also investigated with regard at the adoption of incentives connected to the emergency period and defined by the Recovery Decree. Therefore, respondents were asked to disclose whether they received the different types of COVID-19-related incentives, namely the “Venture Capital Support Fund” (VCSF), the refinancing of the relief granted in the form of soft loans (RGSL), the provision of relief granted on capital injections (RGCI) that may support investments. We tested the effects of such incentives on CE strategies, competences, and resources through one-way analyses of variance (ANOVA).

3. Findings

Of the studied sample, 43 firms (43.43%) were granted with COVID-19-related incentives introduced to support innovative SMEs during the pandemic. The analysis reported significant differences between those that received the incentives and those that did not for CE strategies, competences, and resources (for all the three variables $p = .000$, 2-tailed test). More in depth, firms that did not accessed the incentives reported lower levels of CE strategies, competences, and resources. Further analysis was undertaken focusing on the number of such incentives. In fact, of the 43 firms that received incentives, 32 firms (74.42%) were supported with one incentive; the remaining 12 (25.58%) firms with two different types of incentives. Therefore, the significance of the differences emerging within the tree groups (0, 1 or 2 incentives) was tested. Firms that did not receive COVID-19-related incentives presented significantly different values concerning CE strategies, competences, and resources than those who

received one incentive or two incentives. Non-significant differences resulted between the second and the third groups. It emerges that benefiting from incentives, rather than their number, influences the development of CE strategies, resources, and competences. Thus, additional analyses explored whether different incentives have different effects. In the sample, 32 firms received RGSL incentives, 18 RGCI incentives and four VCSF incentives. Analyses were performed to assess the separate effects of VCSF, RGSL, or RGCI incentives compared to those firms that received the other types of COVID-19-related incentives. Only those firms granted for the RGLS incentives resulted to differ significantly from the others, although limited to CE strategies, presenting lower levels than those who did not receive such type of incentives ($p = .041$, 2-tailed test). Non-significant differences were detected in the other cases.

Value & implications: This study is one of the first attempts to emphasize the role of governmental COVID-19-related policies on incentives in enhancing CE strategies of innovative SMEs during the pandemic. The results show that innovative SMEs that benefited from dedicated COVID-19-related incentives have implemented more CE strategies and present greater CE competences and resources than those that have not benefited from such measures, highlighting that governmental support can allow firms to invest in the development of internal assets needed to capture new business opportunities. As mixed results are found in literature with reference to the role of venture capital in supporting CE innovation, more research is needed to investigate how such incentive can promote SMEs' innovation around CE in time of crisis. Although there is no significant difference in terms of resources and competences according to the type of incentives, the access to capital injections may have allowed better innovation. Thus, it emerges that, given the governmental incentives, it is how a firm create synergies among the available assets that makes the difference in terms of CE strategies' implementation. In this regard, the paper adds knowledge on the role of resources and competences supporting the adoption of CE strategies in time of crisis.

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Piccola Impresa | Small Business

Urbino University Press
Università degli Studi di Urbino Carlo Bo

Finito di stampare nel mese di dicembre 2021

ISBN 978-88-31205-06-1

Piccola Impresa | Small Business

ISBN 978-88-31205-06-1



Università degli
Studi di Urbino
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di Economia