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Toolkit Zone 1 Foundations of the Green & Circular Economy

Circular Economy & SME Readiness

Green and Circular Economy in Business by
Digital Solutions

2024-1-EL01-KA210-ADU-000251741

Co-funded by the European Union. The contents of this
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2.2 Circular Economy Practices and SME Readiness in the Green Economy

According to the European Commission (2020), SMEs form the backbone of the European economy—over 99% of all businesses and a significant share of employment and value creation. An SME employs fewer than 250 people and has either an annual turnover of up to €50 million or a balance-sheet total not exceeding €43 million. Given their scale, diversity, and local embeddedness, SMEs play a decisive role in realizing the transition to a green economy where growth aligns with environmental protection and social responsibility.

The shift toward sustainability requires businesses to rethink how value is created and maintained. Here, the concept of environmental stewardship becomes central—it reflects a company's commitment to managing resources responsibly and minimizing environmental impact (Omowole et al., 2024). For SMEs, stewardship bridges profitability and sustainability by translating ecological awareness into operational improvements and innovation. It functions both as a guiding principle and as a practical framework through which firms can align with SDG 12 (responsible consumption and production) and SDG 13 (climate action).

A critical pathway for implementing stewardship is the circular economy (CE) model, which departs fundamentally from the traditional linear “take–make–dispose” system. The linear model relies on continuous resource extraction and waste accumulation, while CE promotes closed-loop systems where materials retain value through reuse, repair, remanufacturing, and recycling (Masi, Day, & Godsell, 2018; Ghisellini, Cialani, & Ulgiati, 2016). This transition allows firms to decouple growth from resource consumption and waste generation, fostering resilience and competitiveness.

This multidimensional progression typically unfolds across three interconnected levels:

- Operational greening, focused on energy efficiency, cleaner production, and waste minimization;
- Strategic greening, integrating sustainability into business models and decision-making; and
- Relational greening, extending responsibility across supply chains, customers, and communities (Johnson & Schaltegger, 2020).



Building upon this operational foundation, the next section turns to the entrepreneurial dimension—exploring how business leaders and innovators translate these circular and green principles into market-oriented action.

While the potential benefits are clear—cost savings, innovation, and improved reputation—SMEs often face resource barriers: limited financing, lack of expertise, and uncertainty about returns (Rizos et al., 2016; Schaper, 2016). Fragmented policy frameworks or insufficient institutional support can further slow progress. Overcoming these challenges requires targeted financial incentives (Arsawan et al., 2024), capacity-building programs, and stronger inter-firm collaboration.

Readiness for CE implementation develops along a continuum of maturity (Arsawan et al., 2024). At early stages, firms act reactively. As capabilities deepen, sustainability becomes strategic and value-driven. Mature SMEs view circularity as a driver of differentiation and competitiveness, aligning with national and EU goals. Ultimately, the circular economy enables sustainability-oriented market transformation, where innovation, responsibility, and profitability reinforce one another.