

An Alternative Approach to Support Tourism SMEs' Circular Practice Financing: An Activity Theory Perspective

Xiaowen Gao¹, Jin Chan²

^{1,2} Greenwich Business School
University of Greenwich, United Kingdom

Abstract

Inter-organizational collaboration is recognized as a key competency for implementing a circular design (Sumter et al., 2020). The collaborative business model normally includes various companies in supply chains who share knowledge on how to co-create products or services that align with the circular principle. However, financial stakeholders are often missing from such business models.

Research shows that access to finance is the most significant obstacle which hinders SMEs' growth (Beck et al., 2005). Not only are they small in size, which is not attractive to commercial banks, but they are also high-risk borrowers, often without collateral and unable to generate stable cash inflows. The invisible role of financial stakeholders in a circular business model is even more harmful to SMEs who are keen to switch to a circular business model.

This research takes an activity theory approach and identifies the role of financial stakeholders in a large project supporting SMEs' adaption of a circular economy in the tourism sector. This research was funded by the FACET Project—Interreg 2Seas Programme under the European Regional Development Fund. The project involves various institutions from four countries in Europe and has reached out to many SMEs. Sourced data from a large online survey of SMEs in tourism and hospitality and their relevant stakeholders regarding financial supports and barriers, we investigated the challenges SMEs face and the support they required.

We adapted the activity theory generation II framework (Engeström, 1987) to the context of SMEs' financing. We analysed the activity system of financial stakeholders (fund providers) and its interactions with the activity system of a group of fund seekers (Circular SMEs in the tourism sector). We considered tools (existing funding mechanisms) and also identified all other key components, including rules, community, and division of labour which facilitates the success of obtaining needed funds.

After proposing key principles which will better bridge the interactions between fund providers and fund seekers, we concluded that financial stakeholders play a prominent role, especially in designing sources of funding and business planning for SMEs seeking funds for circular practices. More importantly, they ensure the project captures financial benefits for SMEs and the co-created environmental and social benefits and guides on sustainable financing.

Keywords: Activity Theory; SME Finance; Circular Economy

References

Beck, T., Demirguc-Kunt, A., Levine, R. (2005). SMEs, growth, and poverty: Cross-country evidence. *Journal of Economic Growth*, 10 (3), pp. 199-229.

Engeström Y. (1987) *Learning by Expanding: An Activity-Theoretical Approach to Developmental Research*. Helsinki: Orienta-Konsultit.

Sumter, D., de Koning, J., Bakker, C. and Balkenende, R. (2020) Circular economy competencies for design. *Sustainability*, 12(4), p.1561.