

## The Role of Social Capital and Dynamic Capabilities in a Circular Economy: Evidence from German Small and Medium-Sized Enterprises

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**Abstract :** Resource scarcity and rising material prices are forcing companies to rethink their business models. The conventional linear system of economic growth and rising social needs further exacerbates the problem of resource scarcity. Therefore, it is necessary to separate economic growth from resource consumption. This can be achieved through the circular economy (CE), which focuses on sustainable product life cycles. However, companies face challenges in implementing CE into their businesses. Small and medium-sized enterprises are particularly affected by these problems, as they have a limited resource base. Collaboration and social interaction between different actors can help to overcome these obstacles. Based on a self-generated sample of 1,023 German small and medium-sized enterprises, we use a questionnaire to investigate the influence of social capital and its three dimensions - structural, relational, and cognitive capital - on the implementation of CE and the mediating effect of dynamic capabilities in explaining these relationships. Using regression analyses and structural equation modeling, we find that social capital is positively associated with CE implementation and dynamic capabilities partially mediate this relationship. Interestingly, our findings suggest that not all social capital dimensions are equally important for CE implementation. We theoretically and empirically explore the network forms of social capital and extend the CE literature by suggesting that dynamic capabilities help organizations leverage social capital to drive the implementation of CE practices. The findings of this study allow us to suggest several implications for managers and institutions. From a practical perspective, our study contributes to building circular production and service capabilities in small and medium-sized enterprises. Various CE activities can transform products and services to contribute to a better and more responsible world.

**Keywords :** circular economy, dynamic capabilities, SMEs, social capital

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