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Circular new ventures – overcoming their liabilities of newness

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ABSTRACT

This study investigates the complex processes of growth and evolution exhibited by **circular new ventures**. A dataset followed the development trajectories of 70 such ventures from 2021 to 2024. One notable observation is that these new ventures often adopt an experimental approach when crafting their circular business models, aiming to effectively address the genuine needs of potential customers while capturing value based on circular principles. Additionally, right from their inception, these ventures demonstrate a proactive interest in integrating themselves into a broader business ecosystem. Nonetheless, the challenges faced by circular new ventures in relation to their liabilities associated with being new to potential customers and markets encompass constraints in resources, limited networks, and the struggle to establish legitimacy, collectively rendering the task of securing **strategic partnerships** a daunting one. Consequently, counter to the expectations of rapid and extensive expansion, circular new ventures frequently find it necessary to collaborate with and progress gradually alongside other small and nascent ventures.

Keywords: circular economy; circular start-ups; liability of newness; entrepreneurship; circular business models; liability of smallness

INTRODUCTION

The emergence of circular new ventures is motivated by the pursuit of business prospects rooted in the utilization of residual resources that might otherwise be discarded as waste (Geissdoerfer et al., 2023). Previous research has highlighted a relatively higher propensity of new ventures to adapt circular economy principles compared to incumbent firms. This adaptability is attributed to the inherent agility of new ventures, coupled with their freedom from pre-existing business models and entrenched investments (Kanda et al., 2022). However, a confluence of factors including limited resources and a desire to disrupt established business ecosystems can impose liabilities of newness (Gimenez-Fernandez et al., 2020; Volkmann et al., 2021), thereby impeding the initial development and subsequent scaling of their circular business models (Bocken et al., 2016).

Central to the concept of the circular economy is the emphasis on “closed loops” compared to the traditional linear economies. This entails practices such as waste prevention, resource efficiency and effectiveness, dematerialization, and transitioning from ownership to access-based business models (Geissdoerfer et al., 2020). Consequently, circular business models (CBMs) strive to forge closed resource loops and derive value from diverse resources for prolonged periods through adherence to circular principles. These principles encompass rejuvenating ecosystems through products and services, minimizing the consumption of scarce input materials, prioritizing product reuse, and recuperating value or materials embedded in products at the end of their lifecycle. While both new and established firms can develop circular business models, the degree to which they do so may vary – ranging from being an “add-on” or a supplementary facet to a core business strategy. While linear and circular business strategies aren't mutually exclusive in firms, a dominant strategy usually emerges, discernible through budget allocation for research and design as well as revenue generation (Henry et al., 2020).

While insights into the barriers faced by circular new ventures are somewhat limited (Kanda et al., 2024), many studies have analysed the generic obstacles associated with circular business models especially among incumbent firms (Vermunt et al., 2019). Certain studies have also delved into identifying the challenges encountered by small- and medium-sized businesses during their adoption of circular business models (De Jesus & Mendonça, 2018). These studies categorize barriers to the adoption of circular economy into hard and soft, internal and external. However, in

addition to the prevalent focus on large corporations, these studies predominantly adopt a lens centred on linear to circular business model transitions, overlooking the unique trajectory of circular new ventures who develop circular business models from scratch i.e., so called born circular ventures (Kanda et al., 2022). Recent scholarly discourse has pinpointed a spectrum of both internal problems related to the firm itself and external barriers related to the firm's environment that challenge the implementation of circular business models (Vermunt et al., 2019). Notably, the systemic barriers stemming from external factors tend to outweigh the endemic ones. Given the systemic nature of the circular economy, external barriers manifest as alterations required in linear supply chains, a lack of market readiness on both supply and demand fronts, and a mismatch between circular economy practices and regulatory frameworks. These challenges leave new ventures particularly vulnerable during their early stages of growth and development. On the other hand, internal barriers predominantly comprise of financial limitations, organizational complexities, and the lack of relevant knowledge and technology (ibid).

Recently, a handful of studies are emerging which focus on new ventures developing circular business models from scratch (Kanda et al., 2024). For example, Awana et al., (2023) conducted multiple interviews with founders of circular new ventures in Australia to identify and analyse the challenges they encountered at different stages of their development and growth. On the other hand, Han et al., (2023) analysed how circular start-ups scale-up. Furthermore, Van Opstal and Borms (2023) surveyed 165 circular new ventures to analyse their comparative advantages and disadvantages, and their barriers and enablers to implement circular strategies. Altogether, this emerging literature is dominated by a focus on **barriers**, challenges, and obstacles among circular new ventures. While this is an important starting point, this focus needs to be complemented with an analysis of how to overcome the challenges of circular new ventures. This is essential if circular new ventures are to make any transformative impact on the linear economy. Thus, this study asserts that fostering circular new ventures necessitates an examination of their **liabilities of newness** and especially reflecting on how to overcome such liabilities. This approach is crucial for surmounting potential obstacles and providing effective support for their growth and development (Davidsson & Klofsten, 2003).

This chapter tackles a critical knowledge gap by delving into the intricate growth and developmental pathways of circular new ventures. While the intersection of new ventures and the circular economy remains an understudied realm, its significance resonates deeply with the pursuit of sustainability. Our overarching objective is to dissect the pivotal facets that characterize the early growth and development of circular new ventures, while simultaneously navigating the challenges that emanate from their inherent liabilities of newness. To accomplish this, we embark on an exploration of circularity challenges using established models of new venture creation (Gartner, 1985). We operationalize our aim through the formulation of two research inquiries: How do the aspirations for circularity held by new ventures influence (i) the processes of early growth and development? and (ii) the range of **challenges**—both internal and external—typical of nascent ventures? Our endeavour extends beyond the theoretical realm; we aspire to forge tangible connections between practical implementations and scholarly approaches in the pursuit of fostering a circular economy.

Furthermore, this study resonates with policy stakeholders who harbour a vested interest in facilitating the transition toward a circular economy. Insights from this study can serve as a navigational inspiration for the design of business development strategies among **incubators**, **science parks** and new ventures centres. By bridging the gap between empirical investigation and visionary policy shaping, this research seeks to contribute not only to the academic discourse but also to the practice of reconfiguring **entrepreneurial ecosystems**.

CIRCULAR NEW VENTURES

Circular new ventures are particularly relevant in the circular economy due to their agility, responsiveness, and propensity to deploy more disruptive business models. Furthermore, they can rapidly experiment, pilot, and launch circular business models due to their relatively lack of large investments and entrenched market partners (Henry et al., 2020). On the other hand, incumbent firms find it challenging to cannibalize existing profitable business models and develop new business models in areas outside their core competence, brand, and market position. Since the literature is so far dominated by a focus on incumbent companies and their struggles to develop circular business models, there are a few definitions and typologies of circular new ventures. Based on Fichter et al (2022) and Henry et al., (2020), we define circular new ventures broadly as teams,

start-ups, and young firms usually less than ten years that are independent and actively developing a business model based on circularity.

Circular new ventures share several characteristics with new ventures in general (Henry et al., 2020). However, in addition to the economic value creation logic in conventional new ventures, circular new ventures also aim to create environmental and social value. This is akin to social and sustainable new ventures which seek to create, deliver, and capture value beyond economic value for shareholders. However, a critical perspective is also that, not all circular business models are sustainable and circular new ventures may contribute to lock-in by exploiting gaps (optimizing) in the linear economy instead of systematically and deeply disrupting it. Henry et al., 2020 propose five types of circular new ventures as: design-based, waste-based, platform-based, service-based and nature based. According to Henry et al., 2020, design-based circular new ventures include business models dominated by the R-strategy “Reduce and Re-use” and innovation in core aspects such as source material and product design. Waste-based new ventures typically valorise waste streams using recycling and recovery strategies. Platform-based circular new ventures use information communication technology platforms to facilitate interactions between supply and demand to recirculate certain materials, products, goods, and services in B2B, B2C and C2C marketplaces. Service-based circular new ventures usually retain ownership of products and offer access and performance to customers based on a combination of products and services. Nature-based circular new ventures offer products or services with the ambition to regenerate socio-ecological systems. Narrowing down to the business model as a unit of analysis, several circular business models typologies have been proposed. For example, Bocken et al., 2016 proposes six circular business model strategies as: (i) access and performance model; (ii) extending product value; (iii) classic long-life model; (iv) encourage sufficiency; (v) extending resource value and (vi) industrial symbiosis. Related and overlapping circular business model archetypes have also been subsequently proposed in the literature (Kanda et al., 2024).

NEW VENTURE CREATION

An established model for describing new ventures creation and development is Gartner’s framework from mid 1980-ies (Gartner 1985). The model contains four interrelated nodes that make up the basis for understanding and analysing venture creation in a holistic way. This model

was an early attempt to organize the large number of characteristics that were used to describe the early development of new ventures. Gartner's model was based on an extensive literature review of previous entrepreneurship and new venture research while simultaneously striving to move beyond a unidimensional view of entrepreneurship and introducing variety within the phenomenon of entrepreneurship and new venture creation. Gartner's model enables us to understand the complexity of new venture creation through the four nodes that need to be viewed together and that form distinctive combinations of circumstances. With the help of the model each new venture can be analysed and compared to others.

The model recognizes that new venture creation is dependent on both individuals that act entrepreneurially and the organisation itself while constituting a process that develops over time within an environment where a marketplace exists with both opportunities, resources, and risks. A key dimension in this model is the individual, i.e. the entrepreneur. This is a person or a group of people that dedicate themselves to creating and developing an independent organisation which is influenced by the individual's motivation, expertise, values, and ideas. The dimension of process accentuates that new venture creation involves several activities, such as opportunity recognition, resource accumulation, marketing and production that can proceed in different ways and take time to accomplish.

The environment dimension consists of many factors often outside of the control of the new venture, for example availability of financing, living conditions in its surroundings, consumer attitudes, governmental influences, and policies. The environmental factors might be positive or negative for the new venture and influence the venture since they cannot be easily changed. The last dimension is organization, which contains factors usually within the new venture's control, such as strategy, partnerships, and collaborations in general. These can be selected and shaped by the **entrepreneur** during the creation and development of a new venture. Applying this model makes it possible to understand similarities and differences between ventures which enables e.g. detection of patterns that make a complex reality more graspable on an overall level. Moreover, it enables useful classifications and generalizations within the vast category of new ventures.

NEW VENTURES AND LIABILITIES OF NEWNESS

The evolving understanding of new ventures over the past three decades, as observed by Huang et al. (2023), reflects the dynamic nature of entrepreneurial endeavours and the continuous exploration of innovative approaches to business development. A new venture, dedicated to formulating a cutting-edge business model, embodies a dynamic organization earnestly working to establish a business model that is both scalable and repeatable (Han et al., 2023). The sustained focus on new ventures is driven by the growing acknowledgment of entrepreneurship as a vital contributor to **sustainable development** and industrial revitalization (Audretsch et al., 2022). Research on new ventures encompasses diverse aspects, including the traits of individual entrepreneurs, organizational establishment, financing considerations, and the broader context and entrepreneurial ecosystems (Kanda, 2023). Additionally, there is notable interest in recognizing challenges confronted by new ventures and investigating strategies for addressing them (Clarysse & Bruneel, 2007).

Furthermore, the research focus has shifted towards emerging studies on entrepreneurship, new ventures, and the circular economy (Klofsten et al., 2024; Suchek et al., 2022). New ventures, in contrast to well-established firms, face the challenges of newness and smallness (Gimenez-Fernandez et al., 2020). The liability of newness underscores the struggle these emerging businesses face in effectively competing with established counterparts, contributing to a higher likelihood of failure for young ventures (Stinchcombe, 1965). This struggle arises from the necessity for new ventures to navigate new social roles, coordinate employee responsibilities, address mutual socialization issues, and contend with their inability to compete effectively and their lower levels of legitimacy (Singh et al., 1986). Empirical studies consistently support this argument, revealing a negative relationship between venture mortality rates and the age of ventures (Bager-Sjögren et al., 2017). Despite an initial increase in the failure rate, the overall pattern aligns with a broad interpretation of the liability of newness, as the failure rate tends to decline with age after the initial period (ibid).

Theoretical arguments offer a nuanced exploration of both the advantages and disadvantages associated with the liabilities of newness and smallness (Gimenez-Fernandez et al., 2020). On the positive side, the novelty of new ventures can be advantageous, as these entities often display

greater flexibility and agility compared to older firms, capitalizing on emerging business models and a potential lack of lock-in investments (ibid). Furthermore, they confront fewer limitations in terms of technological trajectories, benefiting from lower risk aversion and reduced knowledge filters, thereby enabling greater adaptability in innovation routines and organizational structure (Audretsch & Keilbach, 2007). Conversely, the trajectory of new ventures involves a learning curve, necessitating dynamic adjustments and enhancements to organizational routines for effective knowledge acquisition and exploitation, as well as the development of absorptive capacity (Choi et al., 2022). In addition to this learning process, new ventures may grapple with limitations in economies of scale and scope, bargaining power, and brand recognition. These constraints pose challenges in competing with established companies, particularly in dimensions such as pricing (ibid).

In the realm of a circular economy, the liabilities of newness and smallness can emerge as influential factors shaping how firms perceive and navigate various challenges. New ventures operating within the circular economy are tasked with the imperative to innovate and devise business models that prioritize the effective and efficient utilization of material and energy resources. Nevertheless, these ventures may encounter hurdles due to the liabilities of newness, characterized by a lack of experience and internal knowledge crucial for the development of innovative business models. Circular business models inherently demand collaboration within an ecosystem comprising actors along the value chain, encompassing suppliers, manufacturers, consumers, and policymakers (Kanda et al., 2021). Unfortunately, small, and new ventures may encounter difficulties in establishing strategic partnerships with these key actors, given their limited market power and networks. The collective interplay of the liabilities of smallness and newness presents challenges for new ventures endeavouring to carve a market niche for themselves.

Altogether, circular new ventures share several generic challenges with new ventures in general. Furthermore, they also experience certain challenges inherent in the type of circular business model they strive to develop. A complex interaction between these generic new venture challenges and challenges inherent in the value generation logic of different types of circular business models characterizes the complex set of challenges experienced by circular new ventures as depicted in Figure 1 below.

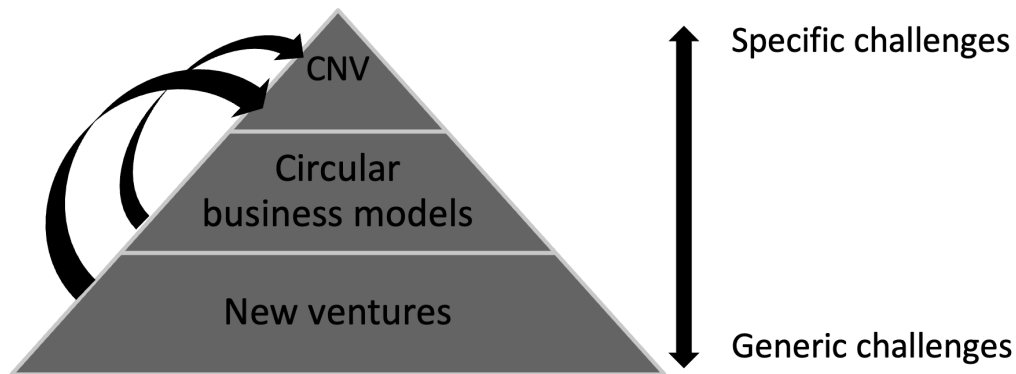


Figure 1: Multiple sources of challenges experienced by Circular New Ventures (CNV).

METHOD AND DATA

The foundation of this study resides in the analysis of a distinctive dataset, a product of our in-depth longitudinal scrutiny of a cohort of circular new ventures spanning a three-year timeframe (2021- 2024). The cohort comprises of 70 European circular new ventures, encompassing a spectrum of operational ages ranging from 1 to 10 years, all anchored by articulated circular business models. The composition of this cohort unfolded through a two-tiered selection process. Primarily, we identified ventures with a pronounced circular orientation across several European nations. Subsequently, ventures qualified for inclusion in our study based on a set of selection criteria crafted in accordance with recommendations from extant literature. These criteria encompassed: (i) ventures with operational histories not exceeding a decade, (ii) ventures driven by profit motives, (iii) autonomous ventures independent of incumbents, and (iv) ventures engaged in the development of a circular business models (as delineated in Bocken et al., 2016).

For this study, business models categorized within the following realms were deemed to embrace circular ambitions: (i) access and performance model, (ii) augmentation of product value, (iii) classical long-life model, (iv) encouragement of sufficiency, (v) augmentation of resource value, and (vi) facilitation of Industrial Symbiosis (IS). The assignment of new ventures into these categories was a deliberative process executed by the research team, grounded in descriptions

furnished by the ventures themselves. Having formed our cohort, our subsequent stride involved engaging with each selected venture with the primary objective of conducting in-depth interviews with founders and their entrepreneurial teams. While a few ventures were either non-accessible or declined participation, the majority accorded their assent to the interview process. Each interview, an endeavour facilitated by one or several members of our research team, spanned a duration of 1 to 1.5 hours. The cumulative outcome of this undertaking equates to a staggering 70+ hours of recorded interview content with the assorted ventures. The interviews were underpinned by a semi-structured format, enabling us to integrate predefined questions with inquiries tailored to the context of each interview.

The line of questioning encapsulated several core domains: the evolution of the venture's business model over time, challenges encountered during the nascent stages of development along with the corresponding mitigation strategies, and the potential correlations between the components of the business model and the hurdles faced. All interviews were meticulously recorded, subsequently subjected to thematic analysis through a process characterized by iterative readings of each interview, culminating in the application of an open coding methodology. The themes that emerged from this process were subsequently contrasted with the existing body of literature focused on the challenges associated with circular business modelling and the developmental trajectory of new ventures.

RESULTS AND ANALYSIS

Within our cohort, the geographic distribution of new ventures is notably concentrated in Sweden and Germany, collectively constituting half of the sample size. Additional noteworthy contributors to the cohort hail from the Netherlands and the United Kingdom, each accounting for roughly one-fifth of the collective sample. The temporal trajectories of the ventures encompass a spectrum spanning slightly under one year up to a decade, with a median age of 5 and an average of approximately 4 years. The size of the workforce associated with these ventures exhibits an average of 8 employees, anchored by a median of 5, with a workforce range spanning 1 to 37 individuals. The operational domains in which our ventures operate are remarkably diverse, with a substantial presence within the food and agricultural sectors (25%, 17 ventures). Supplementary sectors of significance encompass energy, packaging, electronics, and textiles. The bulk of these

ventures orient their business models toward the extension of resource value (e.g., repurposing bread waste into beverages, converting coffee waste into cosmetics) and extension of product value (e.g., repair of electrical and electronic equipment).

Additionally, nearly a quarter (24%, 18 ventures) are committed to developing access and performance-based business models. To explain the early growth and developmental dynamics intrinsic to circular new ventures, we present illustrative examples drawn from our cohort of 70 ventures. These exemplary cases are expounded upon below, aligning with Gartner's (1985) model of new venture development, encompassing changes in individuals, the environment, the organization, and the processes spanning the venture's lifecycle. The selected ventures for elucidation are Hack your closet AB, a venture facilitating second-hand clothing rental and collection of overstock clothes, and Kamupak, a venture pioneering reusable plastic containers for takeaway food. After presenting in-depth these selected cases, we return to our cohort and present some overall empirical observations regarding liabilities of newness among circular new ventures.

Growth and Development – Hack your closet AB

Hack your closet AB, established in Sweden in 2019, started from the vision of two enterprising women. Their shared motivation centred around enhancing accessibility to second-hand clothing and alleviating customer frustrations in this process. One founder had a foundation in sustainability and circular economy, while the other brought to the table a wealth of experience within the second-hand fashion industry and multiple new ventures creation initiatives. The nascent stage of the venture was marked by the daunting quest to identify the right partners and brands to supply clothing items. This phase witnessed the evolution of multifaceted activities, spanning sourcing, repair, washing, quality control, and logistical considerations. Moreover, proprietary software was developed to monitor clothing inventory and flows. The venture also grappled with the employment of migrant labour, fraught with challenges pertaining to work permits due to the inherent risks tied to a novel venture and its propensity to fail.

The onset of the pandemic in 2020-2021 introduced a slew of challenges. The sourcing of second-hand clothes was hampered by the closure of numerous shops, impeding the physical inspection and procurement of clothing items. Furthermore, the tax treatment of their subscription offering in

comparison to second-hand sales by non-profit organizations negatively impacted their competitive stance. An additional layer of complexity emerged as customers demonstrated selectivity concerning clothing quality. The venture's genesis lay in the purchase and rental of second-hand clothing. Subsequently, a novel dimension was introduced: establishing collaborations with established clothing brands to lease their overstocked items to customers. This collaboration stipulated payment to the incumbent brand for each re-circulation of an overstock item. This financial arrangement was eventually replaced by data on customer behaviour, which the larger brands could leverage for future design and sustainability profiling. Challenges were encountered when engaging larger brands, attributed to a dearth of scale, scope, and legitimacy of new ventures. The venture discontinued the option for customers to purchase clothes outright, as it led to the loss of high-quality items and user data. The venture's growth trajectory necessitated a comprehensive understanding of the business model, encompassing seasonal fluctuations, cost-cutting strategies, and enhanced marketing efforts. The venture navigated a delicate balance, avoiding overly rapid scaling that might compromise the customer experience. This challenge became particularly pronounced while seeking investments from venture capitalists fixated on swift growth. Despite the valiant effort, the venture encountered insurmountable hurdles, eventually culminating in its bankruptcy in mid-2022. Prior to its collapse, the venture maintained a workforce of 45 employees spanning diverse roles such as information technology, quality control, repair, styling, finance, and clothing sourcing. It garnered approximately one million USD in annual turnover from about 3000 paying customers.

Growth and Development – Kamupak

The foundational drive behind Kamupak's inception stemmed from a profound intent to counteract the wastefulness attributed to single-use items and mitigate the adverse ecological ramifications tied to ordering takeaway food and beverages. The pivotal catalyst for this endeavour was a significant personal accident experienced by the founder. Post this traumatic incident, the founder rallied a team of three individuals and propelled the venture's launch in 2018 in their native Finland. Kamupak operates through strategic collaborations, wherein partners remunerate the venture for the utilization of their containers during the sale of takeaway food and beverages to customers. The venture fosters direct engagement with end-users through a dedicated app, accompanied by concerted efforts to enhance the accessibility and desirability of their containers. Notably, their

strategic agenda encompasses multifaceted dimensions such as external financing, expansion into diverse geographical domains, and the diversification of their product portfolio.

The Kamupak business model hinges upon a constellation of external stakeholders. Notably, container production is entrusted to an external supplier, while partners such as restaurants oversee the sale of takeaway food. Additionally, end-users tend to exhibit loyalty toward specific food and beverage offerings, potentially eclipsing their attachment to the reusable containers. Intriguingly, the market landscape for reusable takeaway packaging remains at an incipient stage, devoid of a prevailing “dominant design” or established platform. Notably, policy dynamics exert considerable influence, potentially stimulating or constraining demand. The venture's embryonic phase was marked by the crucial stages of validation and the launch of their debut product – a flat square container complete with a lid. A mix of supermarkets and restaurants were recruited as partners, each integrating the container into their offerings for customers. Moreover, Kamupak extended a comprehensive washing service for the containers. Subsequently, a strategic pivot resulted in a refined focus on cafes and restaurants, accompanied by a shift in the responsibility of container maintenance (e.g., washing) onto the partners. Concurrently, Kamupak's container range underwent a substantial expansion, encompassing an array of offerings including bowls, pizza containers, and an assortment of cup sizes. Significantly, the venture leveraged ongoing pilot projects in conjunction with partners and government entities to gather insights and iteratively enhance the business model. A round of financing in 2022 facilitated the recruitment of new leadership and personnel, further bolstering the venture's capabilities. By 2023, the venture boasted an eight-member workforce and an annual turnover approximating one million USD.

Internal challenges related to liabilities of newness

Internal challenges for circular ventures include financial, organizational, knowledge and technology-related challenges (Vermunt et al., 2019). Financial challenges were most frequently mentioned by the interviewed new ventures. Since, CBMs can be new and different, investors lacked clear understanding of such business model and could not confidently judge their business case for investment (e.g., Interview COO and co-founder, firm renting out clothes). CBMs based on access and performance model (cf. Bocken et al., 2016) for certain products are also relatively new for investors (e.g., renting of clothes). For example, a new venture renting working gear as a

service struggled to find investors since their service-based business model was considered not innovative enough and intangible compared to technology-based firms.

The entrepreneurial motivation and mindset can also be new compared to traditional linear start-ups which are focused on economic value creation and growth. Circular new ventures can be focused on addressing an environmental or social problem without clearly articulating an economic growth and scale-up strategy. This entrepreneurial motivation and mindset make it difficult to secure funding from traditional investors focused on economic growth (e.g., Interviews CEO and co-founder, firm using waste feather to produce packaging). Furthermore, due to the newness of CBMs, such entrepreneurs have limited role models and proof-of-concept for their business case. A common organizational challenge relates to the lack of human resources due to limited financial resources, and the difficulty in finding qualified personnel knowledgeable in circular economy (e.g., Interviews CEO and co-founder, firm makes hand tools from waste wood and leather).

Another challenge related to the newness of CBMs is the need to conduct research and development on new technology and production methods for circularity, for example when scaling up. As exemplified by this interviewee offering compostable diapers-as-a-service, “we do not yet have a production assembly for the diaper. We invented the compostable diaper inlay which is completely new. We could not find machines for production, so we are building them ourselves.” (Interviews CEO and co-founder, firm developing compostable diaper-as-a-service).

External challenges and liabilities of newness

Issues related to liabilities of newness are prominent for circular new ventures. These ventures encounter various hurdles on the external front, particularly in the realms of supply chain management, market dynamics, and institutional frameworks (Vermunt et al., 2019). The establishment of Circular Business Models (CBMs) necessitates forging strategic partnerships with diverse stakeholders to access residual material, products, and energy resources. However, this task is intricate for fledgling entrants due to their limited resources, networks, and credibility on the market. This is evident in discussions with industry pioneers, such as the CEO and co-founder of a company specializing in upcycling coffee waste into household items like cutlery,

cups, and boards, and the founder of a firm focusing on cosmetics derived from coffee waste.

The transition towards circular approach poses a challenge, particularly when dealing with certain segments of customers who are unacquainted with or indifferent to environmental sustainability. This discord between supply and demand accentuates the significance of educating consumers and shaping the market to embrace circularity. The landscape of circular new ventures is further complicated by their emergence in established industrial sectors, leading to intense competition with established incumbents. Interviews with CEOs and founders of companies involved in innovations like an online platform for reusing electric vehicle batteries and a venture specializing in the reuse of workwear underscore this competition. The routines of these sectors and their institutional norms often exhibit path dependence, necessitating proactive efforts from new entrants to shift prevailing mindsets and institutions. This demanding task essentially boils down to “pioneering and carving out a market,” a sentiment echoed by the founder of a workwear leasing company.

Complicating matters is the fact that CBMs often operate with material resources that fall outside the purview of existing production and consumption systems. This leads to misalignment with current regulations and thus posing constraints to circularity. For instance, material streams can be officially classified as waste, demanding specialized permits for their re-circulation. As the interviewee put it, “we deal with material streams (e.g., plastics) which are officially categorized as waste and therefore need special permits to handle them; the old rules are killing innovations [...] and are not suited for the new solutions” (Interviews founder and CEO, firm connecting supply and demand to recycle plastics).

In essence, the external challenges confronting circular new ventures due to the liabilities of newness encompass intricate supply chain dynamics, the imperative to educate customers, the struggle against established incumbents, the need to challenge prevailing institutional norms, and the necessity to navigate outdated regulations. Overcoming these challenges requires a blend of strategic partnerships, market education, persistent innovation, and a concerted effort to reshape institutional frameworks to accommodate the evolving landscape of circular business.

Successfully navigating the challenges of newness and smallness for circular new ventures necessitates a strategic approach from entrepreneurs and policymakers. Instead of succumbing to the limitations of operational infancy, these ventures can strategically collaborate with established firms and entrepreneurial ecosystems, mitigating challenges associated with their limited operational history. Creating dedicated platforms for networking and relationship-building also helps leverage complementary capabilities, effectively addressing resource constraints linked to newness and smallness. Entrepreneurs can enhance their circular ventures by engaging intermediary organizations specializing in relationship-building for new ventures (cf. Kanda et al., 2018). These intermediaries play a key role in overcoming the liability of newness by providing expertise in navigating external partnerships. Leveraging the entrepreneurial ecosystem is crucial, involving collaboration among diverse actors such as policymakers, customers, financiers, incubators, incumbents, and educational institutes (Kanda 2023). This collaborative approach helps address challenges posed by the limited experience of new ventures. Ensuring the development of financial and support functions within the ecosystem is essential, providing crucial resources and assistance to small, new ventures operating in the circular economy. Becoming a member of circular entrepreneurial ecosystems and emphasizing purposeful actions for collaborative value co-creation further contributes to addressing the unique challenges faced by circular new ventures.

Finally, adopting a "La longue durée" approach is crucial as it signifies adopting a perspective that recognizes and understands the long-term structural forces shaping ecosystem development and interventions (Frykfors & Klofsten, 2011). This sustained and informed approach is essential for navigating the challenges associated with the newness and smallness of circular ventures. By taking a long-term view and understanding the underlying dynamics, entrepreneurs and policymakers can develop strategies that are better aligned with the evolving needs and complexities of the circular entrepreneurial ecosystem.

CONCLUSIONS AND POLICY IMPLICATIONS

An initial observation regarding the early stages of development emphasizes that new ventures engaged in the circular economy must adopt an experimental approach to shape a functional business model that effectively addresses genuine customer needs while capitalizing on the

principles of circularity. The significance of business model experimentation (as elaborated in Bocken et al., 2016) cannot be understated, serving as a pivotal capability for these ventures to establish the viability of their business models. Such experimentation can be executed through modest-scale pilot initiatives, collaborative endeavours with complementary smaller ventures, and the establishment of partnerships aimed at reciprocal resource exchange. This process of experimentation enables these ventures to learn, evolve, and refine their initial business propositions by assuming calculated risks and utilizing their limited resources. This active approach to learning and collaboration is vital for surmounting the inherent challenges that arise from their status as newcomers in the field.

Secondly, to distinguish themselves from conventional new ventures, circular new ventures must integrate themselves into a business ecosystem encompassing suppliers, customers, and investors. This ecosystem integration is particularly critical for circular ventures due to the collaborative nature of circular business models, which rely heavily on partnerships to gain access to residual material and energy resources (cf. Kanda et al., 2021). While challenges related to partnership dependency might resonate with established business contexts, they become even more pronounced in the realm of circular new ventures due to the absence of established markets rooted in circular principles. This implies that residual material and energy resources, cannot be obtained solely through market transactions, as they are not initially produced for direct consumption. Instead, these resources necessitate trust-based partnerships and flexibility for procurement in the face of quality and quantity uncertainties. Thus, circular new ventures are compelled not only to identify compatible smaller enterprises that share their vision but also to articulate a compelling vision that inspires novel and advantageous collaborations. Aspiring to assume a leadership role within this ecosystem proves to be an arduous undertaking for nascent ventures, given their limited influence and resources. Esteemed incumbents may question their credibility, posing an added challenge. Consequently, the expansion of circular new ventures can be impeded by their reliance on external partners for residual material and energy resources, reverse logistics, and other essential components. This challenge is particularly conspicuous for ventures valorising residual resources, a prevalent archetype within the realm of circular new ventures (Kanda et al., 2022).

To foster the success of circular new ventures in surmounting their liabilities of newness,

policymakers hold the responsibility of creating an environment conducive to market entry, characterized by policies that endorse circular practices. Moreover, the creation of platforms for knowledge exchange where like-minded ventures can converge and cooperate proves invaluable. Additionally, investors must acquire a profound understanding of the distinct attributes of circular new ventures and the economic potential inherent in their ventures. Concurrently, circular new ventures need to demonstrate their readiness for investment, effectively showcasing the viability of their business model to potential investors.

LIMITATIONS AND FUTURE RESEARCH

Finally, we highlight some limitations of this study as a basis for future research. First, our sample is heterogenous with new ventures developing different archetypes of circular business modes, in different industrial sectors and countries. Potential future research could be to conduct an in-depth case study on different industries such as textiles, electronics, and countries with the ambition to identify at which analytical levels unique liabilities of newness ventures for circular new ventures can be reside as a basis for balancing between generic and tailored entrepreneurial ecosystem and policy support for circular new ventures.

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