CHAPTER 4

Circular Business Models: Some Theoretical Insights

Abstract This chapter starts laying the theoretical foundations of business model innovation in the context of the circular economy. Particularly, it deals with how the rationale for adopting circular business models can be explained drawing from the strategic management and neo-institutional theory literature. This chapter also discusses (a) the potential through which circular business models advance the theoretical framework, and (b) the extent to which the implications of circular business models are source of tensions for the theoretical framework used. It also identifies opportunities for future research.

Keywords Natural-resource-based-view · Neo-institutional theory Circular economy field

4.1 Introduction

The previous chapter proposed a preliminary conceptualisation of the CBM, and this chapter builds on this by laying the theoretical foundations of BM innovation in the context of the CE. This is a pertinent area of enquiry. Notably, recent studies highlight that in the CE literature, 'there is no existing unified theory or conceptual approach on how circular economy can be implemented' (Fischer and Pascucci 2017, p. 5) and that 'there is little theoretical development' (Murray et al. 2015, p. 9). Blomsma and Brennan (2017) state that the 'theoretical or paradigmatic

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clarity regarding the circular economy concept has yet to emerge' (p. 8). Fischer and Pascucci (2017) lament that 'the identification of relevant strategic processes and actors in this domain is still limited' (p. 5). Consequently, this research offers some theoretical guidance by exploring the rationale for adopting innovative CBMs or transforming existing ones. This is done by focussing on the following question: how can the rationale for adopting circular business models be explained? The integrated theoretical framework put forward to answer to this question combines the natural-resource-based-view of the firm (Hart 1995) and the neo-institutional theory (Di Maggio and Powell 1983) from the strategic management and institutional theory literature respectively. Resource-based and institutional logics are among the most common theoretical approaches applied in the Business and Natural Environment research (Linnenluecke and Griffiths 2013; Hahn et al. 2015; Montiel and Delgado-Ceballos 2014) and enquiries based on well-known theoretical lenses are useful to identify gaps and opportunities for research avenues (Bertels and Bowen 2015). Here, we see how this theoretical framework can provide useful insights into the development of the CE literature.

This chapter is structured in the following way. Section 4.2 synthesises the state of the art of the issue of theory in the BMs and CBMs literature. It also explains why resource and institutional lenses are used in this study. Sections 4.3 and 4.4 are focussed on the natural-resource-based-view of the firm and the neo-institutional theory with discussion of (a) the potential through which CBMs advance the theoretical framework, and (b) the extent to which the implications of CBMs are source of tensions for the theoretical framework used. Section 4.5 describes emerging CE institutional developments with an application to the British context, and therefore, responds to recent calls for enquiries over socio-institutional mechanisms leading to the transition towards the CE and related BM innovation. Notably, Moreau et al. (2017) underline that institutional and social aspects are mostly overlooked in relation to closing material loops and implementation of new BMs, and Fischer and Pascucci (2017) that 'institutional analysis so far has not focused on CE' (p. 5). Concurrently, Hobson and Lynch (2016) lament that scant consideration has been given to the broader societal implications of the transition towards a CE. They ask: 'what form (…) could and should circular socio-economic institutions, norms and shared practices take and what processes, values and actors will get us there?' (p. 16). On a similar

line, the EMF's 'priority research agenda' over aspects of the CE that are not fully understood yet but that are crucial to facilitate implementation, asks: 'for a country or region, what are the rules, the cookbook, to support the adoption of circular practices'? (EMF 2016, p. 4). The last Sect. 4.6 summarises this chapter's contribution in addition to identifying opportunities for future research.

4.2 The Theoretical Foundations of Circular Business Models

Despite scholars' surge of interest in the concept, the BM literature is still in its early days (Zott and Amit 2013) and there appears to be little understanding of the theoretical foundations of the BM (Arend 2013; Demil et al. 2015; Lecocq et al. 2010; Schneider and Spieth 2013; Sommer 2012; Teece 2010; Wirtz et al. 2016; Zott and Amit 2013; Zott et al. 2011). Arend (2013) lamented that 'the term business model as a description of how a traditional venture operates is strong on redundancy and weak on theoretical grounding' (p. 390). Analogously, Teece (2010) argued that 'the concept of the business model lacks theoretical grounding in economics or in business studies' (p. 175) and Zott et al. (2011) that 'the business model remains a theoretically underdeveloped (…) concept' (p. 1038). Concurrently, Schneider and Spieth (2013) maintained that the 'literature on business models (…) emerged without spending much attention to the issue of theory' (p. 15) and Lecocq et al. (2010) that 'the theorization stage [within business model research] is only in its infancy' (p. 221).

What about the theorisation stage in the CBMs literature? Chapter 3 has found that although limited, some evidence of CBMs elements/categories (Aldersgate Group 2015; Circle Economy 2016; EMF and McKinsey 2012; Gorissen et al. 2016; Van Renswoude et al. 2015; Lacy and Rutqvist 2015; Lovins et al. 1999; Norden 2015; Sempels 2013; Stahel 2006; Weetman 2017; WRAP 2017a), strategies (Bocken et al. 2016), canvas (EMF and IDEO 2017; Lewandowski 2016), archetypes (Moreno et al. 2016), frameworks (Antikainen and Valkokari 2016) and case-based examples (Antikainen and Valkokari 2016; Gorissen et al. 2016; Goyal et al. 2016; Linder and Williander 2015; Ruggieri et al. 2016) is emerging across practitioner, academic and grey literature. Yet, there is limited theoretical development in the CE literature as evidenced

in this chapter introductory section. Seemingly, the BMs and CBMs literature are interlinked in terms of their not fully explored theoretical dimension with the current state of the art of theory in CBMs mirroring that of the broader BMs literature.

This chapter uses organisational (the natural-resource-based-view of the firm) and institutional (neo-institutional theory) lenses to answer to the following question: how can the rationale for adopting circular business models be explained? Resource-based theories are compatible with the logic underlying BMs (Schneider and Spieth 2013), in so far as the value proposition as well as value creation and delivery are dependent upon strategic companies' resources and capabilities (Amit and Zott 2001; Osterwalder and Pigneur 2010). The BM perspective also extends understanding of the means through which value is created and captured (Demil et al. 2015) because it is a combination of resources and capabilities that support activities enabling value creation and value capture, rather than resources individually considered. Therefore, the use of resource-based perspectives in the BMs literature (e.g. Amit and Zott 2001) is not surprising. Equally, in the context of CBMs, the development of new resources and capabilities or the transformation of existing ones is likely given the implications for value proposition, creation and delivery resulting from implementation of the CE proposition as discussed in Chapter 3.

What is fairly new to the BM literature is attention to the context within which BMs develop (Randles and Laasch 2016; Wells 2013) despite the fact that (a) anchoring the study of the BM to the institutional level is welcomed to advance understanding of the conditions under which BMs develop (Demil et al. 2015), and (b) the structure within which a BM operates is a determinant of whether it flourishes or fails (Wells 2013). The conceptual framework used in this study is thus compatible with the quest to advance both the Business and Natural Environment and BMs literature by combining different theories and levels of analysis (Amit and Zott 2001; Bertels and Bowen 2015; Hoffman and Bansal 2012). It is also pertinent in the context of research explaining corporate processes/strategies. Businesses are required to be not only competitive in the market but also to respond to societal expectations and therefore institutional and strategic/competitive logics are not conflicting lens in explaining corporate outcomes (Di Maggio 1988; Oliver 1997; Scott 1987). Resource and institution-based perspectives offer complementary views on the rationale for adopting CBMs

with their focus on companies' resources and broader societal influences, respectively, as levers for organisational processes and performances (Barney 1991; Di Maggio and Powell 1983; Oliver 1991). In addition, the use of the neo-institutional theory addresses concerns in the context of CE research where there would seem to be a limited consideration of institutional theories (Fischer and Pascucci 2017). The next paragraph relates to the first theory of the conceptual framework used in this study, the natural-resource-based-view of the firm.

4.3 The Natural-Resource-Based-View of the Firm

Within the strategic management literature, resource-based perspectives investigate the sources of a company's competitive advantage and how to sustain it over time (Barney 1991). Assuming resource heterogeneity, firms that are endowed with resources and capabilities that are valuable, rare, difficult to imitate or substitute, can obtain a competitive advantage and sustain it over the long term according to the resource-based-view of the firm (ibid.). Valuable resources are those that allow either, exploiting an external opportunity drawing upon internal strengths, or neutralising internal weaknesses and threats coming from the company macro environment (ibid.). Rare resources are considered as firm specific, thus coming from a combination of factors that are peculiar to a given company (ibid.). Inimitable resources are those that cannot be easily replicated by competitors (ibid.). Barney counsels that resources are inimitable because they can be tacit, casually ambiguous or socially complex. Tacit resources are those based on skills and experience accumulated through hands-on practice. They are invisible to the outside, thus difficult to imitate. Casual ambiguity can make resources inimitable because in this case, it is not clear to external competitors how company resources are linked to its competitive advantage. Socially complex resources derive from the interaction between the different components of an organisation engaged in actions for the attainment of corporate objectives. Such resources are once again inimitable because a competitor might find it difficult to understand how such interaction takes place and the many forms through which a company might organise itself to exploit opportunities and strengths while neutralising weaknesses and threats. Non-substitutable resources are those that cannot be replaced with substitutes by competitors.

Hart (1995) criticised Barney's model since it neglects a natural resource-constrained world and thus the implications for firms' competitiveness. Consequently, he proposed the natural-resource-based-view (NRBV hereafter) of the firm arguing that firms' capabilities in environmentally sustainable practices are inextricably linked to the achievement of a sustained competitive advantage. In this model, three capabilities were identified as crucial to attain and sustain competitive advantage: pollution prevention, product stewardship and sustainable development. *Pollution prevention*, which focuses on the manufacturing stage of a product life cycle, can lead to reduced costs because of enhanced resources productivity, reduced waste and lower compliance costs (Hart 1995). Meanwhile, *product stewardship* seeks to minimise environmental pollution along the entire product life cycle (ibid.). Through life cycle assessment and design for the environment, a better appraisal of the product ecological impact is achieved and new green product development stimulated (ibid.). In this case, the source of competitive advantage is not reduced costs but, according to Hart (1995), 'competitive pre-emption' (p. 994), which equals to gaining access to scarce resources or setting new industry standards. Finally, pursuing *sustainable development* means to address both environmental and social concerns at the same time, which implies going beyond minimising pollution and producing affordable products for those in the less developed parts of the world (ibid.). Competitive advantage, in this case, is built through innovation and new market spaces (ibid.).

Clearly, the main tenet of the NRBV, twenty years after, is still and even more relevant in the light of the current ecological crisis. Hart's model is also useful in explaining the rationale for adopting CBMs since the present state of the ecosystem has many direct and indirect implications for the management of organisations and their long-term survival. Not only is the case that natural capital is declining (WWF 2016), global affluence is increasing (Lacy and Rutqvist 2015) and hence resource price and supply volatility affect the viability of linear operating BMs (EMF 2015), but also that climate change and waste regulations and society expectations for corporations to take the lead in addressing the problems that they helped to create, are increasing (EMF 2015; Haigh and Hoffman 2014). Consequently, BM innovation for a CE could contribute towards the achievement of a sustained competitive advantage in the form of better reputation, increased customers' loyalty, potential additional revenues, reduced materials costs and supply volatility

and mitigation of regulatory risks: what has been termed as 'circular advantage' (Lacy and Rutqvist 2015).

The NRBV of the firm is one of the most relevant spin-offs of the resource-based-view of the firm (Barney et al. 2011) and has attracted a considerable interest in the literature (Amores Salvadó et al. 2012), which has been well documented (see, for instance, Hart and Dowell 2011; Montiel and Delgado-Ceballos 2014). Yet, fifteen years after its first conceptualisation, Hart and Dowell (2011) argued that there was 'a need for research that continues to evaluate and extend the propositions offered by Hart (1995)' (p. 1475). Capabilities in CBMs innovation could represent an opportunity to extend Hart's propositions for several reasons.

Firstly, the changing competitive arena that businesses are now confronting provides opportunities for them to build a circular competitive advantage. Secondly, BM innovation to address ecological and social challenges seems either not to be fully explored in Hart's model and subsequent studies or only implicitly considered. For instance, in this relevant passage is argued: 'sustainable economies and sustainable corporations (…) cannot be based on continuing growth in the consumption of non-renewable energy and virgin raw materials. Nor can they create hazardous waste and polluting emissions. Environmental sustainability requires the complete redesign of organizations and strategies' (Shrivastava and Hart 1995, p. 157). From this statement, it can be inferred that 'the complete redesign of organizations' would involve BMs as well, but BMs are not mentioned explicitly. A change in BMs is considered implicitly by Hart and Milstein (1999). They identify 'sustainability' as a new source of creative destruction in the business context, and argue that 'in the long run, however, the dynamics of creative destruction will work against firms that rely only on incremental improvements and fail to change the fundamental manner in which they provide products, processes, and services' (p. 24). By contrast, more direct acknowledgement of BM innovation is given in the author's studies (Hart 2010, 2012; Hart and Milstein 1999) that deal with business strategies at 'the bottom of the pyramid' where traditional BMs conceived for the wealthiest consumers are not likely to work, and fundamental redesign of BMs to provide products and services that are affordable is necessary. Thirdly, the CE thinking aims to reintegrate the economic system within the ecological one (EMF et al. 2015). Therefore, not only are CBMs in accord with the logic underlying the

NRBV of the firm but they also respond to Hart and Dowell's (2011) call upon management practitioners and academic communities for more attention to solutions that address ecological and social challenges rather than simply minimising harm and thus to move beyond incremental strategies (e.g. pollution prevention, product stewardship and eco-efficiency).

The cooperative approach that the mechanisms of value creation in CBMs is likely to require (Webster 2013) is also an opportunity to further emphasise the validity of the arguments posed by Hart (1995). The aspect of competition over collaboration is central in resource-based theories (Haigh and Hoffman 2014; Starik and Kanashiro 2013). However, Hart (1995) rightly recognised that firms' survival resides not only in competitiveness but also in social legitimacy opening up the way to the relevance of cooperation in the pursuit of legitimacy. Cooperation within the activity system of CBMs appears to be crucial as evidenced in Chapter 3 and so it reinforces Hart's argument. In addition, the more boundary spanning relational structure qualifying the process of value creation within CBMs, could also provide the basis for rejecting some of the criticism that the NRBV of the firm in its original conceptualisation has attracted, i.e. that it has 'a tendency to deal with firms in an atomistic way' (Lifset and Boons 2012, p. 9). However, while the BMs literature concurs with resource-based perspectives in postulating that as the resources and capabilities underlying the BM become more valuable, rare, difficult to imitate and substitute, the potential for economic value creation increases (Amit and Zott 2001), the centrality of resource control, uniqueness, casual ambiguity and social complexity in pursuing competitive advantage becomes more nuanced if circular strategies are implemented. This would be in line with Dyer and Singh's (1998) relational view assuming that the sources of competitive advantage may reside beyond a single organisation boundaries. Hence, although the NRBV offers a relevant theoretical perspective to explain the rationale for adopting CBMs and the latter could expand Hart's model and strengthen some of its assumptions, there are also potential contrasts deriving from the interplay between the two. The next paragraph gives attention to the second element of this book conceptual framework, namely to the neo-institutional theory. A diversion in the meaning of institutions and in the processes through which they can affect corporate actions is accomplished first.

4.4 Institutions and the Neo-Institutional Theory

Institutions, according to the Nobel Prize-winning economist, Douglass North, are 'the rules of the game in a society or, more formally, (…) the humanly devised constraints that shape human interaction' (North 1990, p. 3). From this standpoint, the role of institutions is to establish the constraints within which choices can be made, reducing uncertainty and the transaction costs faced by individuals satisfying their personal needs. In contrast, the social constructivist approach has contended that individuals' preferences and choices are shaped and influenced by society (Vatn 2005). Under this approach, 'individuals interact to form institutions, while individual purposes or preferences also are molded by socio-economic conditions. The individual is both a producer and a product of her circumstances' (Hodgson 1998, p. 177). Most sociologists have shared this perspective (ibid.). For instance, the sociologist Scott (1995) classified institutions as 'cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior' (p. 33). Regulative institutions take the form of regulations (ibid.); the normative level contains an evaluative dimension (Scott 2008), which means it takes the form of values and norms reflecting what is generally perceived as an appropriate conduct (Doh et al. 2010); the cognitive level represents the 'shared conceptions that constitute the nature of social reality and the frames through which meaning is made' (Scott 2008, p. 57).

The organisational studies literature also has given attention to institutions, with the neo-institutional theory (Di Maggio and Powell 1983; Meyer and Rowan 1977; Oliver 1991). Di Maggio and Powell (1983) argued that organisational action is mediated and shaped by the institutional context, particularly by the 'organisational field' (organisations are shaped by other organisations in the field) through the influences of coercive, normative and mimetic forces. Accordingly, coercive influences arise mostly from regulatory bodies (state agencies); normative pressures define the suitable organisational and professional conduct and stem from organisations like universities, and professional training networks; mimetic forces are significant under conditions of uncertainty with organisations imitating the successful strategies implemented by others. Scott (1995) contributed to define an organisational field such as 'a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one

another than with actors outside the field' (p. 56). In his view, the field incorporates any actor exerting regulatory, normative or cognitive influences upon organisations. Overall, these pressures lead to organisational 'homogeneity in structure, culture and output' (Di Maggio and Powell 1983, p. 147) and 'the concept that best captures the process of homogenization is isomorphism' (p. 149). Fields materialise around common products, markets or technologies according to the predominant view of how fields form but Hoffman (1999) also proposed that fields form 'around the issues that become important to the interests and objectives of a specific collective of organizations' (p. 352). Conformity to institutional pressures increases legitimacy and social support and thus it benefits companies' ability to secure resources, ultimately having relevance for the attainment of a competitive advantage (Di Maggio and Powell 1983; Oliver 1991).

However, within neo-institutional theory, the institutional entrepreneurship perspective (Oliver 1991) has also introduced agency, i.e. the possibility for organisations to respond to institutional pressures in different ways and not only through conformity (Boxenbaum and Jonsson 2008). While the meso perspective in the neo-institutional theory explains diffusion, meaning that it explains how organisational forms and practices are replicated within organisational fields with an emphasis on homogeneity and convergence, the institutional entrepreneurship approach accounts for heterogeneity and variation, namely divergent organisational change (D'Aunno et al. 2000; Hasse and Krücken 2008). The latter approach has brought more dynamism in the study of institutional contexts as agency and rational decision-making combine with institutional pressures to explain corporate actions (Hasse and Krücken 2008). The neo-institutional theory has received widespread application in corporate sustainability studies (for a review, see: Delmas and Toffel 2012; Montiel and Delgado-Ceballos 2014) providing understanding of how broader institutional influences shape corporate environmental action (Hahn et al. 2015; Lounsbury et al. 2012).

As conformity to organisational fields leads to legitimacy and social approval, and consequently has relevance in the attainment of a competitive advantage, the neo-institutional theory is an appropriate theoretical perspective to understand the rationale for adopting CBMs. Arguably, in seeking legitimacy and opportunities for improving competitive advantage organisations might choose to conform their BMs strategies to the influences coming from the 'fields' established around the 'issue'

of the CE. A high level of interaction and engagement around a common debate by a group of organisations denotes the existence of a field structure (Di Maggio 1983). Consequently, while it is by far too early to observe a highly structured organisational field around the 'issue' of the CE, there are nevertheless some societal developments that might be conducive to it as Chapter 2 has indicated. The CE thinking has started gaining visibility only recently due to the activities and initiatives promoted by the EMF. The foundation in partnership with the *World Economic Forum, McKinsey & Company, SUN* and *SYSTEMIQ*, has produced several reports outlining the economic rationale of the transition towards a CE and stimulated discussion among businesses, policymakers and higher education institutions with the 'mission to facilitate the transition towards the CE'. It is also involved in some initiatives like *The New Plastics Economy* and *The Circular Fibres Initiative* to identify what a circular global textile and plastics system could look like in addition to the steps necessary to move them away from the predominant linear operating model. Other organisations have also promulgated and explored the CE. For example, within the UK, WRAP, Green Alliance, Waste Companies, the Aldersgate Group, Innovate UK and the Royal Society for the Encouragement of Arts, Manufacture and Commerce. Regulatory changes are under way as result, for instance, of the *EU's Circular Economy Action Plan* and circular principles are currently embraced by business leaders and policymakers worldwide as outlined in Chapter 2.

In addition to providing a basis for the explanation of the rationale for adopting CBMs, the neo-institutional theory could benefit from its application in the context of the research on CBMs. Starik and Kanashiro (2013) highlighted that the neo-institutional theory views the natural environment only as a source of shocks and pressures enacting organisational change but it fails to acknowledge that organisations are embedded within the ecosystem, which is rather seen as separate from the organisational domain. On a similar line, Hoffman and Jennings (2015) argued that the 'interests of the natural environment (and future generations) are not captured within standard institutional analyses, which are social and present by definition' (p. 20). The implementation of the CE thinking and thus of BMs modelled upon the functioning of living systems would have implications for 'fields' composition. Notably, the natural environment would be considered as the locus of influence upon firms' strategies not solely in terms of sources of shocks as per the neo-institutional theory but, more radically, as a 'model' to learn from. This would be in line with

perspectives in stakeholders' theory acknowledging that nature should be given the status of stakeholder and thus being directly considered as affecting or being affected by corporate actions (Driscoll and Starik 2004; Starik 1995; Waddock 2011). Starik (1995) counselled: 'rather than overly-restricting the number of natural environment stakeholders, the continued human-caused environmental deterioration of the planet appears to call for all organizations to consider as stakeholders as many natural environment entities as possible (…). Adding non-human natural environment stakeholders could make an organization's stakeholders' map more nearly complete for total environmental problem identification, analysis, evaluation and resolution' (p. 212).

As a consequence, the field constitution would evolve towards the direction welcomed by Starik and Kanashiro (2013) and more recently by Hoffman and Jennings (2015). This shift is not without implications though and reinforces the paradoxical stances existing within institutional theories. The environment would not enter the field by itself. Embracing nature as a 'model' to learn from requires a change in the institutionalised views of the environment in regulations, norms and beliefs, i.e. a profound 'de-institutionalisation' process that is to say that 'any process of institutionalisation must involve a corresponding process of de-institutionalisation' (Randles and Laasch 2016, p. 60). In the institutional developments surrounding the CE that have been highlighted above, two constructs of institutional theory can be observed. Firstly, the EMF and pioneer business leaders can be considered institutional entrepreneurs, i.e. 'actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones' (Maguire et al. 2004, p. 657) as a consequence of the changing ecological, technological, regulatory and socio-economic contexts. Secondly, the emerging regulatory, normative and mimetic influences centred on the CE can lead to organisational and institutional isomorphism once more deeply established at the societal level. Therefore, the simultaneous occurrence of entrepreneurship and potentially of isomorphism around the CE underlines the paradoxical nature of the stances coexisting within institutional theories, i.e. the focus on change and conformity respectively (Gilmore and Sillince 2014).

As seen, in neo-institutional theory, 'fields' are of a central relevance to understand the process leading to organisational conformity and thus to legitimacy. Yet, we need to consider what does a 'CE field' look like exactly?

To begin to answer this question, the next section outlines an emerging 'CE organisational field' with a particular application to the British context.

4.5 The UK's Circular Economy Field

A description of some emerging developments in the British CE field emanating from the government (regulative) and professional training institutions at both the industry and education level (normative) is presented here with the exclusion of cognitive institutions whose presence is generally very problematic to measure (Hoffman 1999). It is only very recently that the CE thinking has been gaining attention (mostly from 2010) and it is therefore difficult to ascertain whether it is becoming an integral part of the cultural frames guiding perception of the reality and action.

In terms of regulatory institutions, the British Government has acknowledged the desirability of a CE and has attributed to market mechanisms (resource prices) the lever for changes in consumers' and producers' behaviour (Joint written evidence to the Environmental Audit Committee 2014). The transition to a CE is seen as almost entirely down to the business initiative while Government role ranges from setting up the right policy framework for businesses to work within, to the removal of barriers that prevent businesses from taking circular actions and the promotion of innovation (ibid.). In what follows, some of these Government's interventions are highlighted and they include not only legislative and financial instruments (e.g. taxes) but also support measures, public procurement rules and initiatives managed by Government's agencies. The initiatives described are both UK wide and regional because environmental policy is decentralised in the UK (DEFRA 2015).

Starting with legislative and financial instruments, the Waste Hierarchy, which informs waste policy and regulation within the EU (Gregson et al. 2015) and encourages giving priority to waste prevention which is then followed by reusing, recycling, energy recovery and as last option landfill disposal (ibid.), governs waste policy and it has been converted into law with the Waste Regulations 2011 (England and Wales) (DEFRA 2011). A landfill tax also is charged in the UK since 1996 and in 1999, a landfill tax escalator was introduced which established that the standard rate of landfill tax would have increased each year (Seely 2009). This tax has represented a clear incentive to encourage the recovery of waste materials (DEFRA 2015) and has reduced waste sent

to landfill which since 1996, when the tax was introduced, has halved (Joint written evidence to the Environmental Audit Committee 2014). The producer responsibility principle, which seeks to make businesses responsible for materials at the end of their life, also applies to different sectors (ibid.). For instance, Packaging Regulations establish that packaging must be designed so that it is recyclable, recoverable and compostable at the end of its useful life (ibid.).

Initiatives that seek to remove barriers and promote innovation include the UK Government Resource Security Action Plan (2012). This funded closed-loop initiatives in the local economy through the support of the Technology Strategy Board, and also launched the Circular Economy Task Force, an industry-led group gathered by the Green Alliance with the purpose to suggest policy recommendations on the issue of resource scarcity (DEFRA 2012). The UK Government also recognised the importance of the CE for the national manufacturing industry with its 2013 Future of Manufacturing Report, and with measures to encourage more responsible and efficient use of resources within the 2013 Waste Prevention Programme for England. The latter launched the Innovation in Waste Prevention Fund which supports projects for waste prevention in local communities through the Waste and Resources Action Programme (DEFRA 2013). In 2012, the UK Government also started supporting the Product Sustainability Forum, which brings together academics, NGOs, UK Government representatives and grocery retailers/suppliers, to improve the environmental credentials of grocery products (WRAP 2017b).

Innovation for the CE is also supported by the UK Government through Innovate UK and WRAP (Waste and Resource Action Plan). For example, Innovate UK launched (Spring 2015) a funding competition for investments up to £800k in studies exploring the business case of innovative BMs based on remanufacturing, leasing and reuse and under its previous name as Technology Strategy Board has financed the Supply Chain Innovation towards the Circular Economy project (Innovate UK 2015). The Technology Strategy Board also financed the Great Recovery Project (Joint written evidence to the Environmental Audit Committee 2014). Led by the Royal Society for the Encouragement of Arts, Manufactures and Commerce, the project has created a network of professionals (e.g. manufacturers, materials expert, design experts, policymakers and academic among others) to explore how to design products that accord with the principles of the CE and

has identified four design typologies, namely design for longevity, design for service, design for reuse in manufacture and design for material recovery (RSA 2013). Several initiatives have also seen the involvement of WRAP, a not-for-profit organisation which works to promote resource efficiency across the UK. Among these: (a) the *Courtald Commitment* aimed at reducing food waste in manufacturing, retail and households through a voluntary agreement with the retail industry (WRAP 2017c); (b) the *Love Food Hate Waste* campaign aimed at individuals, communities and organisations to reduce food waste (ibid.); (c) WRAP in 2012 started a collaboration with the Hospitality and Food Service sector aimed at reducing members food and packaging waste by 5% by the end of 2015 (ibid.); (d) the Electrical and Electronic Equipment Sustainable Action Plan (ESAP) and the Sustainable Clothing Action Plan (SCAP) aimed at improving, respectively, the environmental sustainability of electric and electronic products and clothing along their life cycles, by identifying actions including how to extend product durability, improve reuse and recycling and influence consumer behaviour (WRAP 2017d; WRAP 2017e); (e) the development of a BMs map featuring innovations that accord with the principles of the CE to be used as a tool for businesses that want to innovate their BMs (WRAP 2017a); (f) the support and coordination of the Plastics Industry Recycling Plan (PIRAP) launched in June 2015. PIRAP is a network of industry associations representing the plastic packaging supply chain that works to identify which actions need to be developed to guarantee that the industry meets the UK plastic packaging recycling targets, which are due to increase from 32% of 2012 to 57% by 2017 (WRAP 2017f); (g) WRAP is leading on the REBus project (coming to an end in December 2017) concerned with the development of resource efficient BMs which assists SMEs and large organisations in the implementation of these BMs with a focus on textiles, electric, electrical, furniture and construction goods (DEFRA 2015).

Additional initiatives that seek to encourage business initiatives come from other UK's regions and include the following: (a) Zero Waste Scotland (ZWS) assists in the implementation of the Scottish Zero Waste Plan, resource efficiency and low carbon policies (ZWS 2015); (b) the Scottish Materials Brokerage Service works to ensure that the supply and demand of high value recycled materials is matched (DEFRA 2015); (c) the Welsh Eco-design Centre works in partnership with companies, designers and industry associations to support design for the CE and

(d) the Prosperity Agreements set by the Northern Ireland Environment Agency support businesses towards more resource and energy-efficient innovations (DEFRA 2015).

In terms of public procurement, revision of buying standards at the government level has been initiated in 2014 with new rules contemplating reuse of furniture, purchase of refurbished or easy to reuse items, which can act as lever for the development of more CBMs within the business community along with a 'swap shop' facilitating reusing and exchange of items across departments (DEFRA 2014).

Nonetheless, further government intervention to facilitate the transition to a CE was requested by the House of Commons Environmental Audit Committee in 2014. Notably, the Committee encouraged among others the following measures: (a) differential value-added tax and tax allowances for products that are in line with the CE principles; (b) standardisation of waste collections and a ban on disposal of food waste to landfill; (c) standards for eco-design (House of Commons, Environmental Audit Committee 2014).

Normative institutions also populate the British CE organisational fields in the form of professional training organisations from the industry and the higher education that are gathering around the CE. At the industry level, professional networks include the CE 100, the Sustainable Business Model Group and the Resource Event. The CE 100 is a forum that was launched by the EMF in 2013. Leading global companies, governments, higher education institutions and SMEs innovating in products, services and BMs, are part of the CE 100 and they collaborate and network for the development of practices based on CE principles (EMF 2017a). Similar to the CE 100 is the Sustainable Business Model Group launched by the Forum for the Future. The Resource Event is the British most prominent event for businesses interested in the CE and resource efficiency, gathering annually businesses across sectors with opportunities to share best practices and to learn more about BMs for a CE (Resource 2015). In addition, as evidenced in Chapter 2, the British Standards Institute has very recently released the first global standard offering practical guidance to organisations of any size and type wishing to implement CE principles (BSI 2017).

At the higher education level, British universities work in collaboration with the EMF and they are classified as follows: (a) pioneer universities (University of Bradford, Cranfield University and University College of London) which contribute with teaching and

research to advance understanding of the CE; (b) network universities (Loughborough University, Northumbria University, University of Edinburgh, University of Sheffield, University of Strathclyde, University of Exeter and University of the Arts London) which contribute to knowledge exchanges and collaborations with policymakers and businesses and (c) partner universities (Imperial College London, London Business School and Cranfield University), which are collaborating in the Schmidt-MacArthur Fellowship, seeking to develop skills for a CE in design, engineering and business (EMF 2017b; EMF 2017c). Among the initiatives taken by these universities, the University of Bradford launched the world first Circular Economy MBA, distance learning executive education and a postgraduate certificate in the CE, and Cranfield University a Master in Technology, Innovation and Management for the CE. In addition to its collaboration with higher education institution, the EMF provides online teaching and learning resources to support education for a CE in schools and colleges and e-learning resources for business leaders in managerial and executive roles (EMF 2017d).

The description of the CE organisational field does not intend to be an exhaustive representation of all the institutional developments around the CE that are emerging within the British context. At this point in time, with the UK negotiating an exit from the European Union, there is some institutional and policy uncertainty, that impacts on the evolution of the CE organisational field. Notably, if the country remains within the European Economic Area (EEA), the majority of European environmental laws (including the Waste Hierarchy and the CE package) will continue to apply. However, if the UK moves outside the EEA, then there could be greater change, though exporters will still need to comply with EU regulations in case of trading with other EU states (IEEP 2016).

4.6 Summary

In this chapter, the theoretical dimension of CBMs have been explored, in order to provide a rationale for why CBMs might be adopted. It has offered an integrated conceptual framework which combines the natural-resource-based-view of the firm (Hart 1995) and the neo-institutional theory (Di Maggio and Powell 1983). The approach taken in this study is consistent with the quest to advance the Business and Natural Environment and BMs literature by combining different theories and levels of analysis (Amit and Zott 2001; Bertels and Bowen 2015;

Hoffman and Bansal 2012). It is also coherent with anchoring the study of the BM to the institutional level, to advance understanding of the conditions under which BMs develop (Demil et al. 2015), given that the structure within which a BM operates is a determinant of whether it flourishes or fails (Wells 2013). This responds to the call for more attention to be given to institutional theories in the context of CE research (Fischer and Pascucci 2017).

Opportunities for the perspectives underlying CBMs and the conceptual framework used in this study to cross-fertilise each other alongside potential sources of conflicts and limitations deriving from integrating them are also emphasised. While these considerations are useful to underline the academic relevance of this research, there are also important implications for the practitioner community. Notably, the arguments from competitive and legitimacy logics emphasise the necessity of the transition from linear BMs to CBMs for the attainment of a sustainable and sustained competitive advantage. An outline of an emergent CE field in the British context has also been presented in line with the quest for research over socio-institutional mechanisms leading to the transition towards the CE and related BM innovation (EMF 2016; Hobson and Lynch 2016; Moreau et al. 2017).

Organisational theories and their instrumental logic have been used to part answer to this chapter's initial question: how can the rationale for adopting CBMs be explained? However, this work begs the need for further research. For example, the micro foundations of corporate decision-making could be complementarily explored from a normative perspective. This would involve considering the influence of management values, mental frames and sense-making process, aspects which are currently overlooked within the Business and Natural Environment literature (Basu and Palazzo 2008; Christensen et al. 2014; Hahn and Lülfs 2014; Zollo et al. 2013) and would contribute to overcome the 'much lamented micro-macro chasm in the field of management' (Aguinis and Glavas 2012, p. 594). Future studies might also reveal the mechanisms leading to a sustained competitive advantage from CBM innovation and shed some light on the relevant underlying resources and capabilities. Questions remain over the implications resulting from applying strategic management lenses to CBMs. Particularly, to what extent is down to firms' competition and to what extent is to firms' cooperation for such CBMs to succeed? Answering this is likely to require contributions from scholars in both the Business and Natural Environment and Strategic

Management fields in finding answers. This would have important implications for practitioners since essential lessons might be learnt from the experience of other business leaders that have experimented with CBM innovation.

Furthermore, future studies might assess organisational and institutional isomorphism within a particular institutional context and compare different CE organisational fields and their underlying regulatory, normative and mimetic influences (e.g. across European countries) to evaluate which institutional arrangements are more effective in soliciting the transition towards a more resource-efficient CE. Although sociocultural conditions or cognitive structures in the analysis of the British CE field have not been considered here, this is an opportunity for further institutional research. They have relevance in motivating individual and organisational action (Starik and Rands 1995), with cognitive, institutional and economic processes tightly linked such that: 'cognitive and institutional path dependence will ultimately lead to economic path dependence' (Mantzavinos et al. 2004, p. 81). There are also developing grassroots social innovations that might be investigated, as well as consumers' attitudes. British consumers would seem to now consider both the purchase of second-hand goods, and alternatives to the ownership of goods such as sharing and leasing. (Eurobarometer 2014). The Transition Town movement, a UK-based international network seeks to promote sustainable living at the community level, also promotes some initiatives aligned with CE thinking, such as car share schemes and clothing swopping/repairing (IPPR 2013). Therefore, these emergent cultural developments are an interesting avenue for future CE research to explore and to investigate whether over time they become more embedded in the British institutional context and thereby contribute to the emergence of CBMs.

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