How to Transfer Business from Linear to Circular - Case Martela

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Abstract

The purpose of this case study is to explore the transforming of business from linear to circular. More specifically, we ask, what internal changes were needed for that change? The circular economy logic entails for re-designing business. The previous literature has concentrated on business model innovation but not so much on how companies manage internal processes when changing from linear to circular business. Our office interior case company decided to start a change management process in their business to create more value and customer experience. An in-depth interview was conducted with the CEO. The results show that most important adoption factors were new knowledge, capabilities and collaboration. Family business heritage strongly contributed to the successful implementation of the adoption factors in the case study. Moreover, we identified several internal operational and strategic changes, which were required to achieve the circular economy business thinking.

Keywords: circular economy, sustainability, adoption factor, business model, change management, innovation, business opportunity, value creation, case study
Introduction

Circular economy (CE) is an economic model that integrates both economic activities and environmental sustainability (Ellen MacArthur Foundation, 2012; European Commission, 2016; Murray et al., 2017). CE can provide business and value creation opportunities (Lewandowski, 2016), though, the transition from the traditional linear business models towards circular business models requires new knowledge and business design (Bocken et. al., 2016). Previous research in CE has addressed topics like conceptualization of CE (Ghisellini, Cialani & Ulgati, 2016; Kircherr, Reike & Hekkert, 2017) and business model innovation (Antikainen & Valkokari, 2016). However, the research has not so much explored what internal changes are required in the transformation from linear to circular business.

In our study, we are interested in how established firms can transform their current business model toward a business models for CE. This paper is based on one case from a company that changed its business model and, at the same time, this required company-wide transformations. The transformations were primarily driven by the need to stay competitive and the willingness to contribute to sustainable development. In this paper, we aim to shed a light to the “black box” in which the managers started the business transformation process as well as created two new sustainable business models (Roome & Louche, 2016). In this paper, we are not so much interested in the actual business models and how they are designed. The focus here is on the question “how” i.e. how the company and business model transformation was made to happen by the managers and the employees of the company. To be more specific, the focus is on the managerial and internal organisational processes that took place in a mature company.

To illustrate one circular business transformation case in a Finnish user centric workplace and learning environments designer company, we conducted an intensive case
study consisting of a semi-structured interview. Other data consists of web pages, annual, quarterly and responsibility reports. Content analysis was used as an analysis tool (Eriksson & Kovalainen, 2016), moreover, we utilized internal and some external adoption factors as the analytical framework (see Lewandowski, 2016 for more on adoption factors).

This paper is structured as follows. The next section outlines the theoretical framework of the study, in which we elaborate on the business model transformation and adoption factors. Subsequently, the qualitative research approach and data are presented. The following section describes the case study and provides the diagnosis. Finally, the paper concludes with theoretical and practical implications.

**Theoretical Framework**

Previous research presents some models on how to transform a business model into a sustainable business model. Abdelkafi and Täuscher (2015) have created a system dynamics-based representation of business models for sustainability in their research. They analyse and create a graphic representation of the dynamics of internal business model components as well as their relation to the external business model environment. The research includes an illustrative case study of a German-based crowdsourcing platform.

Furthermore, in their research, Roome and Louche (2016, p. 28-29) came up with a process model of business model change for sustainability. Research aims to explain how new business models for sustainability are created via the interactions between individuals and groups inside and outside companies in textile and construction industry. They came up with a model consisting four connected sub-phases: identifying, translating, embedding, and sharing. The first phase identifying is concerned with “event-driven problemistic search, recognition, and surfacing of core beliefs, combined with an ability to question assumptions and then to explore external ideas at the conceptual level”. The second translating-phase, on
the other hand, “a tightly coupled network of communities inside the company set about to develop that concept into an operational reality after adapting it to the company setting.” In the third phase, embedding, “the new knowledge and relationships then being developed begin to take form in terms of the revised business model that helps create and capture value.” The last phase, sharing, focuses on “the consolidation of the business model network into a collaborative structure as well as the communication of the company’s new approach and revised business model to a wider internal and external audience, including current and future customers.”

Another more theoretical approach (compared to the previously presented ones) to business model transformation has been created by Bautista-Lazo and Short (2013). They created an All Seeing Eye of Business model. The model focuses on different waste materials and the potential to create loss and profit. Gauthier and Gilomen (2015) also researched the elements of sustainable business model and they perceived a typology of such changes. The typology consists of four types of business model transformations starting from no transformation on business model to redesigning the whole business logic and model. However, in this study, we are especially interested in previous research that focuses on the business model transformation in mature organisations. In this study we take the model proposed by Roome and Louche (2016) as a starting point, because our focus is not on the representation of the business model transformation (Abdelkafi & Täuscher, 2015) or on the business model itself (Gauthier & Gilomen, 2015) nor on the profit/loss potential of waste (Bautista-Lazo & Short, 2013).

**Adoption Factors**

There are many reasons for rejecting sustainable and circular business models. These are, for example, technological barriers, legal barriers, economic barriers and required change
in mindset (Bechtel et al., 2013). Technological barriers include specific technologies (e.g. recycling technologies) and processes (e.g. product design) that may make the adoption of CE principles harder to companies. Legal barriers, on the other hand, are complexity of regulations, differences between international regulations, and possible outdated or rigid characteristics of laws and regulations. These can unintentionally bring additional barriers to the transformation process. Economic barriers also may also play a key role; businesses may have challenges in defining the business case according to the CE business principles. Finally, change in mindset is also required. If companies are reluctant to adopt their current ways of operating, it can naturally make implementation of CE harder.

With the help of the adoption factors companies can anticipate and counteract the barriers and move towards sustainable business models and CE. There are variety of benefits to gain. Previous literature has found, that the advantages CE could provide can be related to the overall impact on economic growth, it could provide material cost savings, mitigation of price volatility and supply risks, could provide significant job growth in the service sector and moreover, CE could have an impact on the employment market resilience (Lewandowski, 2016). The factors affecting adoption of a business model to the CE principles can be divided into internal and external factors. The internal factors are concerned with organisational capabilities whereas the external factor encompass the political, economic, social and technological (PEST) factors (Lewandowski, 2016). When it comes to the internal factors, in his study Roos (2014) refers to a master’s thesis work and literature review by Bechtel et al. (2013) and highlights the role of leadership, related to the new strategic direction, realistic benefit and risk assessment, and the ability to create a shared understanding of the business.

One of the key external adoption factors are the sociocultural factors such as consumers and their habits. Planing (2015) found in his literature review, that the adoption of CE business models is dependent on the change of consumer behavior and their routines on
non-functional motives, such as entertainment and enjoyment, and also subjective and moral norms. Roos (2014) refers to a master’s thesis work and literature review by Bechtel et al. (2013) and points out the importance of collaboration. It is quite impossible for a company to achieve circularity without collaboration and networks. Managing internal and external collaboration is likely to be an important adoption factor.

To summarise, there are many studies on barriers to business model innovation and transformation. Furthermore, many advantages of sustainable business models have been identified. However, there does not seem to be many empirical studies on adoption factors i.e. that is how to overcome the identified barriers. Based on the previous literature internal adoption factors concern organisational capabilities to move towards the CE business model (Lewandowski, 2016). Such capabilities included role of leadership and risk management. External adoption factors were mainly concerned with sociocultural factors such as customer’s habits and collaboration.

**Objectives**

The objective of our study is to explore the transition from linear to circular business. More specifically, we intend to explore the internal change management process in the organisation.

**Methodology**

The case study was based on the intensive case study method (Eriksson & Kovalainen, 2016); it included a semi-structured interview with the CEO of a company in user centric workplace and learning environments design business. The collected data consists of a 59-page transcription of one 86-minute interview with the CEO, as well as our observations during the interview, pages of the company’s public website and quarterly,
annual and responsibility reports. The company was chosen when two of the writers were in World Circular Economy Forum in Helsinki, Finland, in 5th and 6th of June 2017. Case company Martela’s CEO was speaking in there about CE business models and we were fascinated by the speech and after that, we introduced ourselves and told if we could interview him about CE and especially business models and how the transformation has happened in their company. We shared some thoughts and business cards and after the Forum we shared a few emails and set up a meeting and an interview at the headquarters of Martela in Helsinki, Finland. The interview was an interesting opportunity to hear Martela’s journey towards CE. The interviewee and the company gave us a permit to use the company brand name. The data was analysed using the qualitative content analysis technique (Eriksson & Kovalainen, 2016).

**The Case Study**

The case company Martela has a long history in the design and sales of office furniture. Matti S. Martela founded the family company in 1945. Today, the company is the largest one in its sector in Finland and one of the three largest in the Nordic countries. Martela has production facilities in Finland and Poland and the main markets include Finland, Sweden and Norway. In 2017, the company employed an average of 508 employees and Martela Group’s turnover was 109.5 million euro. Since 1986, company’s shares have been quoted on the OMX Nordic Exchange Helsinki.

At the beginning of 2010’s, the company faced several challenges in their business. The weak development of the global economy and the weak economic growth in Europe, especially in Finland, forced Martela to cut down its cost structure and to improve the contribution margins. The sales of their core products, desks and chairs for offices and public places, declined due to the increased competition in the global furniture business, where the company
customers had better access to pricing and the private customers were able to buy furniture via online. There was also massive change in the behavior of their customer companies, because they reduced personnel and the costs of their office premises. At the same time, there were changes in the needs of the customers, who started to require more flexible working environments for their employees. In Martela, the CEO realized how the traditional way of “just selling desks and chairs” did not support the new trends of the knowledge work, which emphasizes teamwork, communication and collaboration.

In recent years, Martela has changed strategy toward a more sustainable and green business with circular economy as their spearhead model. Today, the company serves its customers by offering an extensive range of services covering the entire cycle of changing the customers’ working environment from initial inventory and furniture rental and leasing to product care, maintenance and furniture recycling.

There are more influential PEST factors behind in the change from linear to circular, however, in this study, we concentrate on internal, though some have external side of them as well, changes when the organisation is changing their mindset and business model from linear to circular. In our analysis, we have found eight core changes that took place in this specific organisation. They were parallel, somewhat simultaneously managed operations. The starting point was the understanding of how they are exactly creating value for their customers and how that value creation process has changed, and will change in the midst of market pressures. Martela’s solution was to develop a new business focus. In order to transform their business they needed to concentrate on Scandinavia and discontinued sales operations in Russia and Poland. They came to conclusions that the knowledge work is not yet in the level of sales efforts as they are in the Nordic countries. Thus, the change in the markets has not yet started in those countries. The company sees that in the Nordic countries the salaries are high so the work productivity must be very high to operate efficiently and
profitability. In that sense, companies invest in better working workplaces that encourages achieving those targets. Due to these reasons, they concentrate their sales efforts in Nordic countries.

When it comes to the adoption factors, first, transformation from linear to circular business model required new knowledge and capabilities from Martela. In order to transform the business towards sustainable, Martela needed new knowledge. They understood quickly that the process required talent management in the organisation and that they needed to map out the knowledge and skills they already have in their company. This offered a better picture on what new skills they would need and why they would need it. They educated people with new skills, they were offered new responsibilities and they saw that this represented one way of circularity in their business. The CEO states that the company needs to know what resources they need to analyse, start, manage and implement new way of doing circular business. To further support transfer of (new) knowledge also changing the business systems and processes was required.

When the transition to more sustainable business started to go forward the company needed to invest in new ICT systems that supported new circular business models and revenue logic. The company also noticed that when the customer needs change the processes in the company needed to change also. The company also concentrated on lower hierarchy and open company communication both internally and externally, that created business agility, which eventually gave them competitive advantage in the markets. Moreover, changes were needed on capabilities related to culture and mindset. One of the most important internal changes seemed to be company’s identity change. The identity changed from the traditional interior furniture manufacturer to the designer of user centric workplaces and learning environments. They got everyone involved in the co-creation of this new identity and it resulted eventually as Martela-one-spirit. What this means is that everyone
takes care of your own responsibilities as good as possible, everyone should utilize company resources efficiently, share ideas, and allow other to succeed and develop skills. The CEO explains that he had to expose himself every day and meet co-workers, discuss and create and extend the developing culture. He also thought that providing the reasons for the new strategic shift was important and the feedback was needed to see what was working and what was not. This reflects the role of leadership in the transition from linear to circular, the strategic focus and shift needs to be implemented within the organisation and in this case, the identity change had a key role.

Furthermore, small, but important internal cultural changes in the organisation are things to show that they all share the same goals. The CEO is nowadays just called by his first name, no more titles and everyone in internal communication is a dear colleague. This highlights the new type of leadership capabilities the transformation required. However, in a larger picture, the internal cultural change is a major task. The CEO saw that it takes a lot of commitment to lead that change. They saw that what actually they were doing internally is what they were moving forward in their circular business. The internal cultural change to be more customer oriented and focusing on customer experience provides tools for a better workplace. Thus, even the physical design of the whole work place is change management and what they understood that the core issues were meeting with people, open communication in every level and learning from each other. Leadership capabilities and changes related to them were also required when they realised at Martela that they need to learn away from Finland-centricity. The CEO felt that the customer experience must be the same everywhere; employees must have the same support in everywhere so the identity transformation affected Finland centricity as well. What this meant that when seeking the best customer experience they need to have the same mindset in every country they have business operations and personnel. The company identity, culture, and especially, Martela-one-spirit,
needs to be implemented in every country. They thought that this was one important step when transforming their business from linear to circular.

Finally, collaboration was an essential adoption factor also to Martela. When designing new business and in this case the transformation from linear to circular business it is important to develop new partnerships. However, the CEO sees that it is not easy in Finland, because of the attitudes. What he means is that in Finland partnerships could be seen as a competition and not productive for both parties. However, they do feel that even more than ever, in circular business partnerships are in major role. They engage in close partnerships with their clients to pursue more lasting and benefiting partnerships.

One reason why Martela was able to carry out all the required changes was most likely their family business heritage. One internal strength has always been the family business heritage and long history in furniture business. They believe in longer timeline when talking about business planning and creating new business opportunities. They also believe that the family business heritage provides stability and longevity to their business. One aspect of the heritage is also the strong brand, though, the brand has to evolve and that was one of the starting points when the identity transformation started that was the why they wanted to leap to the next level in providing more value to customer experience and also transition to more sustainable business when the markets were changing.

**Findings**

The company analysed the markets and concluded that the way we understand work is rapidly changing. Knowledge work was gaining momentum and the way companies use their premises for productive work was also changing. Moreover, they saw business opportunities in CE, and thus, they began their transformation to circular business, which could create more value for their customers. Our analysis revealed the core adoption factors that has and will
have an effect on their continuing transformation to circular business model (Lewandowski, 2016). The family business heritage provides the company the basic values and longer timeline in business planning and creating new business opportunities. In addition, the identity co-creation and cultural changes were managed to improve the transformation process. Moreover, the company decided to change their business focus, which was necessary for resource implementation and they understood where they could create better value for their customers. These adoption factors reflects the regenerative nature of the company. However, the transformation started with a carefully conducted analysis and well planned change management process.

When analysing PEST factors it is certain that they all have had an effect on the change management process. Political and economic decisions and initiatives have improved CE business opportunities and made the business environment pro-sustainable (Ellen MacArthur Foundation, 2012; European Commission, 2016). Social and technological changes in societies, in this case especially in the Nordic countries, made an impact on the decision process to transform business towards circular. This is reflected by the consumer behaviour change (Bechtel et al., 2013).

**Conclusion**

The case study focused on the transformation of traditional linear to circular business. The theoretical implications of the study focus on the transformation from linear to circular business model and especially we contribute by revealing the internal changes needed. At the case company, most important adoption factors were related to new knowledge and capabilities, leadership capabilities and collaboration. The practical implications of the study are related to the managerial aspects. This study reveals that the transformation from linear to circular business is a complex, resource intensive and quite difficult change management
process, however, customer value and new business opportunity driven at the same time. Management can provide positive support with co-creation and commitment for the whole organisation.

References


