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## The role of experimentation and emergent strategies in developing and scaling circular business models

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**Abstract:** The circular economy is an emerging field characterised by complexity and innovation. As such, strategy likely emerges out of practice in a less planned manner. However, this view is largely missing in the growing field of circular business models (CBM) where strategies are assumed to be planned before they are implemented in a rational top-down process. Drawing on an analysis of how a secondhand organisation grew from a single store to become one of few larger commercial secondhand retail organisations, this study aims to illustrate the role of experimentation and emergent strategy-making. The findings, presented as two narratives, show that an experimental approach where strategy emerges from action has played a vital role in the organisation's development. This suggests the need to widen the scope when discussing strategy-making for CBM growth and look beyond tools and metrics used for planning.

### Background

The circular economy, generally described as “an industrial economy that is restorative or regenerative by intention and design” (Ellen MacArthur Foundation, 2013, p. 14), has received increasing attention in recent decades. Governments and business leaders place their hope in a future where circular business models (CBMs) through circular practices and technologies provide solutions to current environmental, and to an extent, social problems. To fulfil this future, CBMs need to be scalable (Ellen MacArthur Foundation, 2017; European Environment Agency, 2019). That is, they need the capacity to formulate and successfully implement strategies that make them grow in size and scope to displace linear consumption and make circularity mainstream. However, as an emerging field, predicting how a circular future would look is both complex and surrounded by uncertainty (Bauwens et al., 2020) which complicates strategic planning.

Yet, CBM literature often takes a rational perspective on strategy formation and implementation where it is assumed that strategies are (and should be) planned before they are implemented in a rational top-down process. This rational approach can even be found in research that highlights the need for experimentation in the transition from linear to

circular business practices (e.g. Hofmann & zu Knyphausen-Aufsess, 2022; Konietzko et al., 2020). Experimentation is seen as part of a planned and consecutive process of strategy formation and works as a tool to pilot new CBMs before implementation and upscaling, explore new opportunities, develop partnerships, or generate data (Bocken et al., 2021). Similarly, literature on dynamic capabilities and CBMs shed some light on how a firm must experiment and adapt in response to environmental changes. But even here it is mostly the experimentation capabilities for validation purposes that are the focus (Bocken & Konietzko, 2022; Hofmann & zu Knyphausen-Aufsess, 2022; Sandberg & Hultberg, 2021). However, Dobson et al. (2018) propose, in a study of a social enterprise's process of scaling, that scaling and business model development are intertwined processes building on experimentation. In other words, emergent strategy processes happening in parallel and without deliberate goals.

Even though real-world strategies contain both planned and emergent elements, they are prone to verge to one side of the planned-emergent continuum (Mintzberg & Waters, 1985). The strategies that verge more towards the planned side are strategies that are formed and implemented with deliberate intention. A



clear plan is first formulated and then collectively executed by the organisation with intended outcomes as a result. On the emergent side of the continuum, strategies are unintended or at least guided by vision rather than explicit plans. These strategies emerge out of practice in an undirected way and are often continuously modified (Neugebauer et al., 2016). Since they emerge out of practice it is difficult to separate the formulation phase from the implementation as this occurs simultaneously (Mintzberg & Waters, 1985).

The tendency to emphasise planning through rational decision-making and overlook the emergent strategies that develop in conjunction with short-term decision-making and personal experiences is common in research on sustainability strategy-making more broadly (Luederitz et al., 2021; Neugebauer et al., 2016). However, Neugebauer et al. (2016) propose that it is more likely that sustainability problems are addressed by emergent strategies since these problems are complex and uncertain (e.g., potential solutions are unknown, and experience from other problems is not transferable). Planned strategy-making requires problems that are clearly defined and would therefore be more prevalent in straightforward and controllable contexts (Mintzberg & Waters, 1985).

The problem of scaling CBM can be described as both complex and uncertain and it is therefore likely that emergent strategy-making is more common. Additionally, CBM initiatives often represent small organisations. This also speaks for the importance of looking beyond planned strategy-making and exploring emergent approaches. Luederitz et al. (2021) for example find that small firms that try to expand their sustainability activities integrate both emergent and planned approaches in a collective and distributed process. The collective ability of managers, customers and employees together influences strategic directions and corporate values.

This study aims to fill a gap in the literature by showing that experimentation in emergent strategy formation/implementation is important for the development and scalability of CBMs. That is, not only as a tool for validating claims before scaling (e.g. piloting) but it has a vital role in shaping strategies and thus the scaling process itself, as it unfolds. Since this perspective is largely overlooked in CBM

literature, important knowledge for understanding how to grow CBMs from small-scale initiatives to larger organisations with the capacity for transformative systems change is missing.

To do this, a case from the fashion industry was chosen. The fashion industry represents a relevant industry where the development of CBMs has been put forward as a solution to social injustice and environmental pollution (European Environment Agency, 2019). Fashion brands and start-ups have during the last decades implemented and experimented with different CBM initiatives (Global Fashion Agenda, 2019). While many initiatives remain fragmented and small, secondhand has shown promise and currently represents a growing segment (BoF & McKinsey, 2021).

## Method

This study adopts an explorative and qualitative approach that builds on a single case study of a secondhand retail organisation's process of going to scale. In 20 years, the organisation has developed from operating a single store to an omnichannel chain of stores in three markets, with additional business offers and collaborations. This particular organisation was identified as representing a relevant case for how a CBM can scale through emergent strategies involving experimentation. Additionally, the development during 20 years as the organisation has grown to become one of few larger commercial secondhand retail organisations makes for a rich material to study strategy development over time.

Data were mainly collected through in-depth interviews and archival material from the organisation's homepage and social media platforms (see Table 1). The respondents were chosen since they had insights into when and why important decisions were made, and because they had been with the organisation long enough to have a historical perspective.

The material was collected and analysed in three phases. In the first phase, archival material and initial interviews were analysed to make a chronological list of important activities, events, and decisions relating to the scaling process. What to include in this listing was decided inductively from the material.

Following the definition of strategy "as a pattern in a stream of decisions" (Mintzberg & Waters,



1985, p. 257), the second phase aimed to find patterns representing overarching strategies and periods of change in the chronological list.

This was then synthesised in thick descriptions. Langley (1999) refers to this as temporal bracketing and explains it as a strategy for “structuring process analysis and sensemaking” (p. 703).

In the third phase, follow-up interviews were held to add depth and nuance to the analysis as well as help to clear up questions and validate assumptions. This was followed by a second analysis focusing on how the identified strategies evolved and their interdependencies.

	<b>Data type</b>	<b>Organisational role (count)</b>	<b>Duration (hh:mm)</b>	<b>Documentation type</b>
<b>Initial data collection</b>	Organisation blog posts	n/a (n=210)	n/a	Electronic documents
	Social media posts (Instagram)	n/a (n=1384)	n/a	Electronic documents
	Magazine articles and press releases	Collaborations & store locations (n=3)	n/a	Electronic documents
	Publicly available interviews (podcasts & YouTube)	Co-founder (n=6), Former employee (n=1)	04:29	Transcripts of key sections & Audio
	Semi-structured interview	Co-founder, Global (n=1)	01:20	Transcript
		Manager at a partner organisation (n=1)	00:15	Transcript
Observations and unstructured interviews	Retail store and staff (n=2)	00:30	Field notes	
<b>Additional data collection</b>	Semi-structured interview	Co-founder, Global (n=1)	00:51	Notes
		Associate Director, Sweden (n=1)	02:20	Transcripts
		Manager at a partner organisation (n=1)	00:32	Transcript

**Table 1. Summary of collected material.**

## Findings and discussion

A phrase that the co-founder returns to in the interviews is “action begets action”. From action new opportunities emerge, leading to new actions and new opportunities. New ideas and strategies are formed and implemented in an experimental approach where one idea feeds into another affecting the organisation’s development and scale.

Two strategic paths, here presented in the form of narratives, illustrate how strategies emerge from ideas and actions rather than plans, tools and evaluations. The first narrative focus on the experimental approach that led to new geographical markets and the second focus on how experimenting with remanufacturing lead to collaborations, wholesale, and new customer segments. Common for these two examples is that they have been crucial to the organisation’s development and overall growth process.

### *From one to three markets*

Opening new geographical markets are often preceded by calculation and deliberation. This was however not the case when the organisation opened their second market, three years after it took ownership of the first store in the UK. Around this time, the management had

some vague ideas about expanding the business but had not decided on a direction. Instead, the second market came about almost by chance.

The organisation was approached by a former customer that was interested in replicating the concept in their new home country of Sweden. The co-founder liked the idea, went over to have a look, and after finding a suitable retail space they opened. This was an important event in the organisation’s development but not something that was part of a planned strategy for expansion, instead, it emerged out of coincidences, actions, and different individuals’ ideas and needs. They did not know if the concept would work in the new market but took action anyway and ended up establishing a new market with a new team. The Swedish market grew and during some periods operated more stores than the original UK market.

A few years later the organisation was presented with a similar opportunity, a former employee from the UK store decided to move back to Russia and wanted to open a store. They tried the same experimental approach and adapted the concept and set-up to the new context. However, this time they left the market

soon after opening. The co-founder comments on this by saying that “The customer just wasn’t there. I tried, I thought it was a fun idea, but it just didn’t work”.

While this experimental approach successfully established Sweden as a new but unexpected market, it failed to do the same in Russia. However, failure is part of an experimental approach. What is interesting to note is that in none of these two makes, stores opened in the form of pilots or tests. Instead, they opened as part of an experimental approach accepting that it might not work.

When they opened what is currently their third market, they instead followed a more planned approach. Finland was planned based on advice from both consultants and partners that could provide insights when it comes to both market and customers. This is in line with the idea that as a problem becomes less complex it is easier to form planned strategies (Neugebauer et al., 2016). At this time, they had accumulated experience, grown their network, and secondhand had increased in popularity. The problem (i.e., knowing where and how to open their secondhand concept) had thus reduced in complexity.

#### *From vintage to remanufacturing to wholesale and partnerships*

One of the challenges with scaling the sale of secondhand garments is that only a few garments are good enough to be sorted out and sold in a curated secondhand store. The organisation, therefore, started to experiment with remaking and redesigning used garments. It started with the simple question “can we cut the legs of jeans and make shorts?” and has grown to include one of the largest remanufacturing factories in the industry. A more planned approach to this could have been to develop the skills and styles before launching the concept. This was not their way, consequently, garments entered the stores with quality issues related to making and sizing. However, the organisation continued to learn and is now launching a new brand with higher quality remanufactured products.

From the remanufacturing, new actions and strategies have emerged. It is for example the starting point for what later evolved into the wholesale side of the business. The co-founder says that “wholesale was not part of an original business plan”. It emerged when they were approached by a fashion brand that wanted to

include some of the remanufactured products in their assortment. This initial action gave them the idea to pursue wholesale and reach out to more retailers, both big and small. This was a crucial change in the organisation’s development that led to more collaborations, a wider network and more iterations down the line. Additionally, their collaborations with well-known brands have had the added advantage of reaching new customer segments as well as influencing the conversation of what fashion in a circular context is.

The experimental approach that the organisation use, where scaling strategies emerge out of practice and interaction with other actors, requires some financial muscle. There are no guarantees that experiments will succeed, and investments pay off, the organisation must therefore be prepared to gamble. However, actions can lead to unexpected opportunities and learnings which might be just what CBMs need to develop and upscale their operations. In a context where the problem is hard to define, such as scaling the many layers of a CBM, planning might not always be an effective approach (Neugebauer et al., 2016) but instead, lead to inaction.

#### **Conclusions**

The findings show that an experimental approach where strategy emerges from action has played a vital role in the organisation’s development. Strategies that have contributed to the organisation’s development in the direction of becoming a leading secondhand retail brand have emerged from actions that lead to other actions in an experimental approach. By letting action lead them the organisation developed in directions that could not have been planned. It is unlikely that they would have developed the Swedish market or the wholesale business by analysing their organisation or their potential markets. It was strategies that emerged from allowing the organisation to follow ideas and shape new opportunities from action that made this happen. In contrast to many incumbent firms, the piloting stage is in this way sidestepped in favour of experimentation throughout the scaling process as the strategy is formed and implemented. Hand in hand with this is the networking capabilities that support experiments and form new strategic directions

emerging from the connections and embedded experiences.

An emergent approach is not completely without planning. But what the narratives presented in this study show is that strategies emerging from experimental action shape the development and scaling of CBMs. As such they deserve more attention. A too narrow focus on planning might hamper organisational action and lead to missed opportunities.

This paper has some limitations, primarily from being based on a single organisation's development process and interview data that could suffer from recall biases (even though efforts were taken to limit this e.g., with triangulation). However, it should be seen as a starting point for a conversation about how we approach the problem of scaling CBMs. The findings suggest the need to look beyond tools and metrics when discussing CBM growth. Given that there are so many uncertainties when it comes to what a circular future would look like, emergent strategy-making is likely more common than what is reflected in the literature. Hence, future studies could follow the process more closely, preferably over an extended period to see how strategies are formed and implemented in real time instead of relying on historical documentation and recall.

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