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# Changes in strategic partnerships of fashion companies when innovating from a linear to a circular business model

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# Abstract

Today fashion companies are required to replace their current linear “take-make-waste” business models with circular business models to reduce negative environmental impacts. In order to innovate towards a circular business model, fashion companies depend on collaborations with strategic partners in the business ecosystem (Antikainen and Valkokari, 2016). However, the literature lacks empirical research on strategic partnerships in the field of circular business models (Valkokari et al., 2014). To provide such research, the authors have answered the following research question:

**RQ:** *How will the strategic partnerships of fashion companies change when innovating from a linear business model to a circular business model?*

To answer the research question, a literature review and a qualitative multiple-case study have been conducted. The data acquired is based on semi-structured interviews with four Norwegian fashion companies, investigating how 16 strategic partnerships have changed due to circular business model innovation. The data was analyzed on an individual and business level in light of the industrial network theory.

The findings show that developing strong and personal bonds with strategic partners are crucial when innovating to a circular business model, as it leads to greater willingness to adapt and take higher risk regarding investment of resources. Furthermore, the need for innovative capabilities and improving environmental reputation towards stakeholders were the main driving forces behind the change of partnerships. The fashion companies evaluate new and existing partners based on economical and environmental aspects, and conduct trial projects before advancing or terminating the collaborations. In addition, new strategic partners are often found at random, and not through structured searching processes. Further research should study how strategic partners create win-win-win situations (positive triple bottom line results) when innovating towards a circular business model. In particular, empirical case-studies examining both parties' perspectives related to economical, environmental, and social aspects are suggested.

# Sammendrag

Dagens moteselskaper er nødt til å erstatte nåværende lineære "bruk-og-kast" modeller med sirkulære forretningsmodeller for å redusere negative miljøpåvirkninger. For å innovere mot en sirkulær forretningsmodell er selskapene avhengige av samarbeid med strategiske partnere i deres forretningsøkosystem (Antikainen og Valkokari, 2016). Imidlertid mangler litteraturen empiriske studier om strategiske partnerskap i tilknytning til sirkulære forretningsmodeller (Valkokari et al., 2014). For å bidra til dette forskningsfeltet har forfatterne besvart følgende forskningsspørsmål:

**RQ:** *Hvordan vil strategiske partnerskapene til motebedrifter endre seg når de innoverer fra en lineær forretningsmodell til en sirkulær forretningsmodell?*

For å svare på forskningsspørsmålet er det gjennomført en litteraturgjennomgang og en kvalitativ multiple-case studie. De innhentede dataene er basert på semistrukturerte intervjuer med fire norske moteselskaper, og undersøker hvordan 16 strategiske partnerskap har endret seg på grunn av sirkulær forretningsmodellinnovasjon. De empiriske dataene ble analysert på et individuelt- og forretningsnivå i lys av industriell nettverksteori.

Funnene i denne studien viser at det å utvikle sterke og personlige bånd med strategiske partnere er avgjørende når man skal innovere til en sirkulær forretningsmodell, da det førte til større tilpasningsevne og høyere risikovilje for investering. Videre var moteselskapenes behov for nye, innovative kapabiliteter og bedre omdømme overfor interessenter når det kommer til bærefrakt de viktigste drivkreftene bak endringene. Moteselskapene evaluerte både nye og eksisterende partnere basert på økonomiske og miljømessige aspekter, samt inngikk prøveprosjekter før samarbeidene utviklet seg videre eller ble avsluttet. Funnene viser også at moteselskapene ofte fant nye partnere tilfeldig, og ikke gjennom en strukturert søkeprosess. Videre forskning bør studere hvordan strategiske partnere skaper vinn-vinn-vinn-situasjoner (positive resultater på den tredelte bunnlinjen) når de innoverer til en sirkulær forretningsmodell. I denne sammenheng er empiriske case-studier som undersøker begge parters perspektiver knyttet til økonomiske, miljømessige og sosiale aspekter anbefalt.

# Preface

This master thesis is written by Linnea Tveraaen, Eva Røgler, and Didrik Dege Dimmen as the final part of their master's degree at NTNU School of Entrepreneurship at the Department of Industrial Economics and Technology Management. The goal of this thesis has been to investigate how strategic partnerships change when fashion companies innovate towards a circular business model. The authors also aimed to use this research to transform their own startup company towards the circular economy. Overall, the research has been exciting, educational and challenging.

We want to thank our supervisor, Lise Aaboen, for her guidance and encouragement throughout the fall of 2019 and spring of 2020. Her interest and knowledge in this research field has served as an important guideline and contributed to constructive discussions that have developed the thesis further. Also, we want to thank Karoline Kaspersen for constructive feedback along the way, and Puck Hegeman for advice regarding the literature review. In addition, we want to thank all interview objects for providing us with their valuable time, and shared knowledge and experiences. Without their honest and reflected answers, this thesis would not have happened.

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# Table of Content

List of Figures .....	vii
List of Tables .....	vii
<b>1 Introduction .....</b>	<b>8</b>
1.1 Research Question .....	9
1.2 Contribution .....	10
1.3 Structure of Paper.....	10
<b>2 Literature Review .....</b>	<b>11</b>
2.1 Circular Business Models.....	11
2.1.1 Definitions and Types of Circular Business Models.....	11
2.1.2 Effects on the Triple Bottom Line.....	12
2.1.3 Circular Business Models in the Fashion Industry .....	13
2.2 Circular Business Model Innovation .....	14
2.2.1 Circular Business Model Innovation – Definitions and Frameworks.....	14
2.2.2 Innovating Towards a Circular Business Model.....	15
2.2.3 Innovating Towards a Circular Business Model in the Fashion Industry....	16
2.2.4 Challenges with Circular Business Model Innovation in the Fashion Industry .....	16
2.3 Strategic Partnerships in Circular Business Model Innovation .....	17
2.3.1 The Role of Strategic Partnerships .....	17
2.3.2 Challenges with Strategic Partnerships .....	18
2.3.3 Establishing New Strategic Partnerships .....	19
2.3.4 Strategic Partnerships in the Fashion Industry.....	19
2.4 Theoretical Framework .....	20
2.4.1 Industrial Network Theory .....	20
2.4.2 The Activity-Resource-Actor (ARA) model .....	20
2.4.3 States Model of Inter-Firm Network Relationship Development Process...	23
2.4.4 Implications for Theory Building .....	26
2.4.5 A Combined Model for Strategic Partnership Changes.....	26
<b>3 Methodology .....</b>	<b>28</b>
3.1 Research Design .....	28
3.2 Selection and Presentation of Cases .....	29
3.2.1 Selection Criteria.....	29
3.2.2 Presentation of Selected Companies and Cases .....	30
3.3 Data Acquisition .....	32
3.3.1 Semi-Structured Interviews .....	32
3.3.2 Limitations With Data Collection and Extraordinary Circumstances due to COVID-19.....	33
3.4 Data Analysis .....	34
3.5 Methodological Reflections .....	34

3.5.1	Validity .....	34
3.5.2	Reliability .....	35
3.5.3	Generalization .....	35
<b>4</b>	<b>Findings and Analysis .....</b>	<b>37</b>
4.1	Changes in Strategic Partnerships of Company A.....	37
4.1.1	Establishing a New Strategic Partnership with Textile Manufacturing Partner A1.....	37
4.1.2	Establishing a New Strategic Partnership with Marketing Partner A2 .....	40
4.1.3	Developing an Existing Strategic Partnership with Marketing Partner A3..	42
4.1.4	Establishing a New Strategic Partnership with Logistics Partner A4 .....	44
4.1.5	Establishing a New Strategic Partnership with Textile Manufacturing Partner A1.....	46
4.1.6	Analysis of Changes in Strategic Partnerships of Company A .....	49
4.2	Changes in Strategic Partnerships of Company B.....	50
4.2.1	Establishing and Developing a Strategic Partnership with Repair Partner B1.....	50
4.2.2	Developing an Existing Strategic Partnership with Recycling Partner B2 ..	54
4.2.3	Establishing and Ending a Strategic Partnership with Network Partner B3	56
4.2.4	Analysis of Changes in Strategic Partnerships of Company B .....	57
4.3	Changes in Strategic Partnerships of Company C.....	58
4.3.1	Developing an Existing Strategic Partnership with Clothing Manufacturing Partner C1.....	58
4.3.2	Ending an Existing Strategic Partnership with Clothing Manufacturing Partner C2.....	61
4.3.3	Establishing a New Strategic Partnership with Clothing Manufacturing Partner C3.....	64
4.3.4	Ending an Existing Strategic Partnership with Logistics Partner C4 .....	66
4.3.5	Establishing a New Strategic Partnership with Logistics Partner C5.....	68
4.3.6	Analysis of Changes in Strategic Partnerships of Company C .....	71
4.4	Changes in Strategic Partnerships of Company D .....	72
4.4.1	Establishing a New Strategic Partnership with Clothing Manufacturer D1 .	72
4.4.2	Developing an Existing Strategic Partnership with Clothing Manufacturer D2 .....	75
4.4.3	Developing an Existing Strategic Partnership with IT Partner D3 .....	77
4.4.4	Analysis of Changes in Strategic Partnerships of Company D .....	79
4.5	Cross-case Analysis.....	80
4.5.1	Development and Ending of Existing Strategic Partnerships.....	80
4.5.2	Establishment of New Strategic Partnerships .....	82
<b>5</b>	<b>Discussion .....</b>	<b>84</b>
<b>6</b>	<b>Conclusion .....</b>	<b>87</b>
6.1	Findings and Research Contribution.....	87
6.2	Recommendations for Further Research.....	88
6.3	Implications for Practice.....	88



## List of Figures

Figur 1: <i>Activity-resource-actor (ARA) model as presented by Håkansson and Snehota (1995), with the Relationship (DYAD) dimension highlighted</i> .....	22
Figur 2: <i>A revised States model of inter-firm network relationship development process presented by Batonda and Perry (2003).</i> .....	24
Figur 3: <i>The combined model based on the ARA model by Håkansson and Snehota (1995) and the Revised States model of inter-firm network relationship development process presented by Batonda and Perry (2003).</i> .....	28

## List of Tables

Table 1: <i>Overview of the respondents in the case companies.</i> .....	33
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# 1 Introduction

The fashion industry is one of the world's most polluting industries. Every year, textile production emits 1.2 billion tonnes of greenhouse gasses (Ellen MacArthur Foundation, 2017). In order to significantly reduce emissions, fashion companies need to become more sustainable - both in an environmental, economic, and social way (Marques, Marques, & Ferreira, 2020). As a proposed solution, fashion companies can innovate their current linear "take-make-waste" model towards a circular business model (Antikainen & Valkokari, 2016). In the fashion industry, the linear "take-make-waste" business model leads to significant negative environmental impacts as it focuses on "one-off" purchases without any reuse or recycling. Contrary, a circular business model is a regenerative system in which garments are circulated for as long as possible with a focus on minimizing environmental impact. A circular business model is defined as "how an organization creates, delivers and captures value with and within closed material loops" (Mentink, 2014, p. 24). Here, the closed material loop means that the garment can be recovered and infinitely recycled through natural or industrial processes, which is how it differs from linear business models.

Only a few established fashion companies have innovated towards a circular business model, even though this type of model can contribute to solving the problem (Mentink, 2014). Companies face several challenges and obstacles when it comes to innovation and implementation of circular business models, for example, due to limited resources of production facilities and take-back systems (Veleva & Bodkin, 2018). According to Mentink (2014, p. 24), a circular business model "(...) does not need to close material loops by itself within its internal system, but can also be part of a system of business models which together close a material loop". This implies that a circular business model should include collaborations within a complex network of interdependent, but also independent actors, and stakeholders (Antikainen & Valokari, 2016).

Strategic partnerships between the focal firm and a network actor or stakeholder can give the focal firm access to capabilities and resources that are crucial for enabling the innovation process (Bhattacharya & Polman, 2017; Veleva & Bodkin, 2018). In this process, it is believed that the focal company needs to change its strategic partnerships to start new circular initiatives and terminate or restructure linear activities. A change in strategic partnerships can involve the establishment of new partnerships with actors from

industries the company traditionally is not linked to, or develop and even terminate existing partnerships (N. Bocken, Short, Rana, & Evans, 2013).

Although strategic partners are considered important when a fashion company innovates towards a circular business model, the literature lacks empirical research on how this is performed in practice (Antikainen, Uusitalo, & Kivikytö-Reponen, 2018; N. M. P. Bocken, Schuit, & Kraaijenhagen, 2018; Veleva & Bodkin, 2018). Furthermore, Valkokari et al. (2014) have outlined the possible required changes related to strategic partnerships in circular business model innovation, but only on a conceptual level. In order to be able to support fashion companies in identifying and implementing circular business models, Valkokari et al. (2014) highlight the importance of contribution to previous research by conducting empirical case studies. This master thesis will further explore this research gap.

## 1.1 Research Question

In order to provide empirical research on strategic partnerships in circular business model innovation within the fashion industry, the research question (RQ) for this thesis is:

**RQ:** *How will the strategic partnerships of fashion companies change when innovating from a linear business model to a circular business model?*

Firstly, circular business model innovation refers to the use of innovation together with partners in order to create, deliver and capture the value that will improve resource efficiency, and thereby take into account economic, social, and environmental aspects (Frishammar & Parida, 2019). Secondly, the thesis aims to look at strategic partnerships within the fashion industry, i.e. fashion companies and their suppliers that were involved in the circular business model innovation. Changes in strategic partnerships refer to changes in the three dimensions: activity links, actor bonds and resource ties (Håkansson & Snehota, 1995), and six states of business relationships: searching, starting, developing, ongoing maintenance, termination or dormant process (Batonda & Perry, 2003). Lastly, the fashion companies in this thesis are Norwegian companies that develop and sell fashion products to consumers and are currently innovating towards a circular business model. As the authors are based in Norway, the scope was limited to Norwegian fashion companies due to lower cultural and geographical distance.

## 1.2 Contribution

With this study, the authors aim to contribute to filling the gap with empirical research on change in strategic partnerships of fashion companies in the circular business model literature. As strategic partnerships have been found to be critical for fashion companies when innovating towards a circular business model (Antikainen et al., 2019; Lahti, Wincent, & Parida, 2018; Valokakari et al., 2014; Frishammar & Parida, 2019), this study can contribute to support fashion companies when implementing new circular initiatives in practice. Furthermore, the authors aim to provide research that could help fashion companies find and evaluate new partners, build strong and personal long-term partnerships, and provide strategies to end a partnership. Thus, this study can contribute to imperative actions rather than passive participation from fashion companies, which can help to reduce the fashion industry's current high greenhouse gas emissions.

## 1.3 Structure of Paper

The master thesis is structured into 6 chapters. Chapter 1 has introduced the concept of circular business model innovation and the role of strategic partnerships, in addition to the research question. Chapter 2 presents a literature review and the theoretical framework applied to investigate the research question. In Chapter 3, the research design, data acquisition, and analysis, as well as reflections and limitations of the method are described. Chapter 4 presents the analysis of the 16 different partnerships studied across four fashion companies, both on a case-level, company-level, and cross-case level. Moreover, in Chapter 5, the findings are discussed in light of previous research on the literature field. Lastly, in Chapter 6, the authors present the answer to the research question, recommendations for further research, and implications for practice.

## 2 Literature Review

In this section, the findings of the literature review will be presented. The authors will first review the literature that describes circular business models on a conceptual level, as well as in the fashion industry. Furthermore, the literature on circular business model innovation will be described before reviewing strategic partnerships in this context, both in general and in the fashion industry. Lastly, the theoretical framework that is used to structure and analyze the findings will be presented.

### 2.1 Circular Business Models

In the following, the authors will present the literature on circular business models in general, and in the fashion industry.

#### 2.1.1 Definitions and Types of Circular Business Models

There is no clear definition of circular business models in the literature, according to a conceptual paper on circular business model definitions by Nußholz (2017). However, Nußholz (2017) states that most circular business model definitions are based on the value creation logic of Osterwalder (2010), which implies that circular business models describe how value is created, delivered, and captured. Mentink (2014, p. 24) includes this logic in his definition: "a circular business model can be defined as the rationale of how an organization creates, delivers, and captures value within closed material loops". Moreover, Frishammar and Parida (2019) take the triple bottom line perspective, i.e. environmental, social, and economic aspects, into account in their definition.

In addition, Nußholz (2017) states that several definitions agree on the concept of closing material loops. The closed-loop concept is integrated into Mentink's (2014) definition, as well as the definition of Lahti, Wincent, and Parida (2018), which states that the optimal circular business model achieves the complete cycling of materials. Moreover, empirical research by Nußholz (2018) highlights the concept of slowing loops. This refers to the design and development of long-life-goods, e.g. through repair and redesign. In order to clarify the concept of circular business models beyond the value creation logic, Nußholz (2018) argues that more empirical studies are needed on how companies integrate the

circular business model concept in practice, and if they include one or both of the slowing and closing loop concepts.

### 2.1.2 Effects on the Triple Bottom Line

As mentioned in the previous subchapter, Frishammar and Parida (2019) state that a circular business model realizes benefits on the triple bottom line, i.e. environmental, social, and economic aspects. Previous literature has highlighted several opportunities and challenges that a circular business model brings to a firm and its ecosystem in relation to the triple bottom line:

#### **Environmental aspect**

Previous research on the field has mainly focused on the environmental opportunities and challenges that come with a circular business model (Antikainen et al., 2018; Nancy M. P. Bocken, de Pauw, Bakker, & van Der Grinten, 2016; Hollander, Bakker, & Hultink, 2017; Pinheiro et al., 2019; Reichel, De Schoenmakere, & Gillabel, 2016). According to a conceptual paper by Hollander et al. (2017), circular product design can be achieved by using more energy-efficient materials and improving the production process. For example, if the company creates value from waste through recycling, this helps to slow or close resource loops and thus reduce the environmental imprint. However, Nußholz (2017) found that there is disagreement in the literature when it comes to what extent recycling and remanufacturing actually decrease negative environmental footprints. For instance, a life-cycle analysis done by Gaines (2012), shows that the resource efficiency gained from a recycling process can be lower than from reducing primary materials. This implies that circular strategies such as recycling will not always lead to a circular business model, and Nußholz (2017) suggests that researchers in the field should take this into account when conducting studies about circular business models.

#### **Financial aspect**

Conceptual literature disagrees about the economic opportunities related to a circular business model. For instance, Lathi, Wincent, & Parida (2018) state that a circular business model will generate economic profits over time through the flow of resources. Conversely, Stål & Corvellec (2018) argue that the financial profitability of circular business models is not proven and that such models increase financial risk. For instance, if the integration of circular activities is not well-conducted, the company will not survive economically in the long-run. Moreover, Linder & Williander (2017) argue in an empirical study of six companies that innovating towards a circular business model includes substantial investment costs. However, Pejvak & Rana (2018) found that companies that do not implement a circular business model may not be competitive in the European market in the future. Thus, even if circular activities may increase financial risk, companies need to adapt to external trends in order to be economically profitable in the future.

## **Social aspect**

The third aspect of the triple bottom line perspective, the social aspect, is not given much focus in the literature of circular business models (Geissdoerfer, Savaget, Bocken, & Hultink, 2017). The research by Geissdoerfer et al. (2017) describes that the circular economy mainly focuses on economic systems with a primary positive impact for the environment, and implicit effects for the social dimension. Such implicit, social benefits come from environmental and economic improvements as more manual labor or fairer taxation. Thus, the social aspect of the triple bottom line has not been given much attention in the circular business model literature, even though the circular economy is found to create jobs and social benefits in the society.

### **2.1.3 Circular Business Models in the Fashion Industry**

Circular business models are increasingly discussed as a potential solution to solve the large environmental impacts of the fashion industry (Ellen MacArthur Foundation, 2017; Vehmas, Raudaskoski, Heikkilä, Harlin, & Mensonen, 2018). Today, the industry is dominated by linear “take-make-waste” business models, which focus on creating and capturing value from large-scale sales of new products (Kant Hvass & Pedersen, 2019). A study by Birtwistle & Moore (2007), show that linear models lead to short time consumption as they encourage customers to dispose of their clothes before they are worn out. Thus, the product life cycle is considerably shortened. In order to become more sustainable regarding all aspects of the triple bottom line, fashion companies should build business models around the circular economy (Marques, Marques, & Ferreira, 2019; Hvass et al., 2019).

According to Marques, Marques, & Ferreira (2019), the concept of circular business models is described similarly in the fashion industry literature as in the general literature. For example, previous research has focused on slow fashion as an alternative to fast fashion (Vehmas et al., 2018). In this context, researchers have highlighted the importance of selling used clothes, and offering renting of new and used wear through collective consumption and second-hand markets (Marques et al., 2020; Pedersen & Netter, 2015). Moreover, in order to close the loop, several fashion companies have started to focus on take-back systems that enable clothes to be recycled, redesigned, and remanufactured (Hvass et al., 2019; Vehmas et al., 2018).

However, the circular business model concept in the fashion industry is still immature, both within the research field and in daily life. According to Vehmas et al. (2018), “circular clothes are not very common yet”. Thus, more research, both conceptual and empirical, are needed to understand how such models can replace the linear “take-make-waste” model. For instance, Hvass et al. (2019) suggest more focus on all phases of the product

life cycle to develop an integrated and economically viable circular business model for the fashion industry and wider analyzes on the triple bottom line in the context of the whole network.

## 2.2 Circular Business Model Innovation

The following section introduces the concept of circular business model innovation. The authors will first review the literature on the field in general, before presenting the literature in the context of the fashion industry.

### 2.2.1 Circular Business Model Innovation – Definitions and Frameworks

Based on a case study of eight circular business model innovation journeys, Frishammar & Parida (2019) described circular business model innovation as follows: the use of innovation together with partners in order to create, deliver and capture the value that will improve resource efficiency, and thereby take into account economic, social and environmental impacts. Moreover, in a conceptual paper by Bocken et al. (2019), circular business model innovation is explained as either updating existing business models with new circular elements or creating new ones. The aim of this type of innovation is to embed, implement, and capitalize on circular economy practices, and the transformation may make the company's existing business models, networks, and capabilities useless (Antikainen & Valkokari, 2016).

Moreover, a conceptual paper by Antikainen & Valkokari (2016) describes the innovation process on a firm-level and system-level and highlights the importance of reconfiguring all levels in order to close material loops. The paper also recognizes trends and drivers within the ecosystem, understanding value to partners and stakeholders, and evaluating the impact of sustainability and circularity. This view on circular business model innovation is aligned with the results of conceptual research by Valkokari et al. (2014), which states that the focal company should integrate elements into three different levels. These are macro-elements, such as global trends and drivers; meso-elements, e.g. the ecosystem and value co-creation; and micro-elements, for instance, the company, customers, and suppliers. Further on, Valkokari et al. (2014) request case studies about the changes necessary at a network-actor level, related to the roles of the actors and how the business model changes. Furthermore, Nußholz (2018) argues in her conceptual paper that previous research does not integrate the value creation logic in the different product life cycles, which is one of the main characteristics of a circular business model. However, as recommended by Valkokari et al. (2014), more empirical studies on the business model changes and



network-actor level should be conducted in order to better understand circular business model innovation.

### 2.2.2 Innovating Towards a Circular Business Model

According to Frishammar & Parida (2019), achieving opportunities associated with the triple bottom line aspects require circular business model innovation. Moreover, in order to successfully innovate the business model, a company needs a holistic approach that considers sustainable factors in the context of the triple bottom line (Jensen, Prendeville, Bocken, & Peck, 2019). A study by Geissdoerfer et al. (2018) investigated three companies from the UK and one from Brazil in different sectors, which aimed to innovate their business model towards the circular economy in order to achieve positive triple-bottom-line results. Geissdoerfer et al. (2018) discovered that it is necessary to implement circular principles in all three business model elements of Osterwalder (2010), i.e. value proposition, value creation, and delivery, and value capture, in order to achieve optimal sustainability performance. In this way, the companies could gain economic revenue, create jobs, and achieve environmental goals by reducing landfills through recycling and remanufacturing. However, a conceptual study by Korhonen, Honkasalo, & Seppälä (2018) states that limited progress regarding the implementation of the triple bottom line aspects has been documented. In other words, there is a gap in the circular business model innovation literature addressing a need for deeper empirical insight into the innovation process, and how this transition is done in practice to achieve benefits on the triple bottom line (Bocken et al., 2019; Luis Miguel et al., 2018; Stål & Corvellec, 2018).

Furthermore, the external focus is highlighted as another important aspect of circular business model innovation (Frishammar & Parida, 2019). In the study, Frishammar & Parida (2019) found that a focal company should focus on building awareness around external initiatives, such as recycling and reuse, to understand how such opportunities can be used in the circular business model innovation. Frishammar & Parida (2019) also suggest that a company should analyze their ecosystem, including network actors, partners, and the value chain. This analysis is important because such a transformation process strongly depends on the contributions of others, which is further described in section 2.3 about strategic partnerships. This perspective on circular business model innovation was also studied by Mentink (2014), who conducted an extensive analysis of the existing business model innovation tools for a circular economy. Based on his findings, and built on the business model canvas by Osterwalder (2010), the Business Cycle Canvas (BCC) was created. The BCC includes the whole "business cycle" and different stakeholders of the focal company.

### 2.2.3 Innovating Towards a Circular Business Model in the Fashion Industry

There is a common agreement that changes towards a circular economy needs to be done in the business model of fashion companies (Antikainen & Valkokari, 2016; Valkokari et al., 2014). A case study by Hvass & Pedersen (2019) examined a global fashion brand that went through a transformation process towards a circular economy. The study found that business model innovation was required in the transformation. With this, both a change of the value proposition, customer's role and engagement, and the establishment of new partnerships were influenced. However, Hvass & Pedersen (2019) stated that there is a lack of knowledge about how to design the circular business model in the fashion industry. This is supported by Pedersen, Earley, & Andersen (2019), which argues that there is a need for more case studies that investigate circular business model innovation in the fashion industry, including the three R's, i.e. reuse, recycle and reduce. Furthermore, Pedersen, Earley, & Andersen (2019) found that the circular business model innovation is difficult to accommodate in the fashion industry, as it requires an ultimate shift from a highly contrasting linear business model. Additionally, Pedersen, Earley, & Andersen (2019) concluded the need for more empirical studies on circular business model innovation within the fashion industry.

When comparing circular business model innovation literature in the fashion industry with other industries, the authors found great similarities between these research streams. For instance, a study within the fashion industry by Sandvik & Stubbs (2019) found that changes need to be made in the entire ecosystem when transforming the business model, which is in line with previous research in chapter 2.2.2. However, the fashion industry differs when it comes to e.g. the substantial focus on reverse logistics to take care of used textiles.

### 2.2.4 Challenges with Circular Business Model Innovation in the Fashion Industry

Several challenges with circular business model innovation overlap in the fashion industry and other industries, as described in subchapter 2.2.3. A difference was found in a study of Sandvik & Stubbs (2019), where it was discovered that fashion brands struggled to separate materials in the remanufacturing process due to limited textile-to-textile recycling technology. Furthermore, there are high research and development costs related to remanufacturing, which increase the financial risk (Sandvik & Stubbs, 2019). Another challenge in the innovation process is the high supply chain complexity due to several stakeholders involved in product development. This makes the building of a supportive logistic system both necessary and challenging. A study by Pedersen, Earley, & Andersen (2019) also showed that the fashion supply chain complexity needs to be solved in

collaboration with external strategic partners and stakeholders. In conclusion, many of the challenges in a transformation to a circular business model overlaps across several industries. However, in the fashion industry, there are also challenges with a lack of textile-to-textile recycling technology and knowledge about the complex supply chain.

## 2.3 Strategic Partnerships in Circular Business Model Innovation

Lastly, the authors will present the literature on strategic partnerships in circular business model innovation. As in previous sections, a review of the literature, in general, will first be presented, followed by a discussion of the literature in the fashion industry.

The literature maps out different strategic partnerships that are important in circular business model innovation, including stakeholders such as end customers and government, and business actors in the value chain and network of a company. However, this thesis will focus on business actors in a company's value chain as strategic partners, e.g. manufacturer and logistics suppliers.

### 2.3.1 The Role of Strategic Partnerships

As mentioned in the previous chapter, collaborations with strategic partnerships are found to be important when a company innovates towards a circular business model (Antikainen et al., 2019; Lahti et al., 2018; Valkokari et al., 2014; Frishammar & Parida, 2019). Strategic partnerships between fashion companies and business actors in the company's value chain can help reduce risk and financial costs, negative environmental impacts, and share resources and knowledge (Veleva & Bodkin, 2018). Antikainen et al. (2019) state that all strategic partners of a focal company need to invest or change their business model, in order to succeed with the circular innovation. Lahti et al. (2018) state that the focal firm might be the driver for the change, but the partner may be the one with the domain knowledge or resources, making the implementation possible. Several studies also agree on the opportunities by establishing long-term collaborations with key actors in their supply chain (Bocken et al., 2014; Antikainen et al., 2019). Such collaborations show that there are networks of value exchange and interaction between partners which together create and deliver value.

Furthermore, previous studies have shown that strategic partnerships between small and large companies are useful. For instance, research by Oncioiu (2018) of 384 Romanian SMEs showed that support by small companies could help the focal company to successfully

implement a circular business model. This innovation process led to the use of renewable energy and the design of smart and green products, among other things. A study by Hockerts & Wüstenhagen (2010), which investigated strategic partnerships between small and large companies in a circular economy, found that smaller strategic partners could stimulate disruptive innovation and contribute to sustainable development in the given industry. However, despite this, the literature still lacks understanding of how established companies develop mutually beneficial partnerships to deliver new products or services (Hockerts & Wüstenhagen, 2010).

### 2.3.2 Challenges with Strategic Partnerships

According to Antikainen et al. (2019), collaborations between actors in circular business model innovation are challenging as it encompasses the whole network of a company. Several studies in the literature have highlighted this challenge in relation to strategic partnerships. For instance, in a study of six Swedish companies by Pejvak & Rana (2018), it was found that value creation and developing relationships with partners was a major challenge that emerged. In this concern, several case firms in the study highlighted the importance of selecting expert partners and developing cooperative arrangements with ecosystem actors. Pejvak & Rana (2018) further recommended that the responsibilities of partners should be clearly defined before collaboration commences. Moreover, in a study by Antikainen et al. (2019), the respondents mentioned challenges such as organizing collaboration between different partners, finding suitable collaborators, and combining different areas of expertise. Solutions to these challenges were co-creation by sharing expertise between organizations and combining knowledge from different actors, sharing information, and increased transparency between actors. However, the study says nothing about how this should be conducted in practice. Thus, more empirical research should be conducted in the future.

Antikainen & Valkokari (2016) argue that in order to avoid the challenges of strategic partnerships, the focal company should find a balance between self-interests and sustainability impacts. In addition, it should aim to create a win-win-win with a positive triple bottom line situation for both parties, i.e. positive financial, social, and environmental results. In order to create a circular business model, the focal firm depends on its partners to not be opportunistic. Their interests and driving forces may be different, thus, the stakeholders' tensions need to be controlled and analyzed (Frishammar & Parida, 2019). Future research needs to understand how to create a win-win-win situation with its strategic partners when transforming to a circular business model, as there is a lack of research on this topic.

### 2.3.3 Establishing New Strategic Partnerships

As a result of transforming towards a circular economy, a need for new networks and closer collaborations might emerge. Thus, establishing new strategic partnerships could be necessary (Niinimäki, 2018). According to Frishammar & Parida (2019), several cases had been forced to enter into new strategic partnerships when transforming from a linear to a circular business model. As a circular business model calls for the involvement of multiple actors in an ecosystem, the companies become increasingly interdependent in terms of processes and activities. For example, new partners sought to develop and deliver new solutions such as take-back systems or deposit schemes. The study also showed that one reason why new partnerships were entered was to strengthen the focal company's branding position as an environmentally conscious company, by taking advantage of their partners' eco-friendly brand. Another reason for the implementation of new partnerships was that new capabilities may be needed when transforming towards a circular business model. These new capabilities take time to develop internally as they are built up through complex learning processes. To a certain extent, establishing new strategic partnerships can compensate for the internal development of new capabilities, and thereby help the focal company launch the circular business model in a faster and more cost-saving manner. Hence, the establishment of new strategic partnerships is shown to be both beneficial and crucial in order to successfully transform the business model. However, Antikainen et al., (2019) state that research does not describe how companies should find and implement new and valuable partners. Thus, this topic should be more investigated in future research.

### 2.3.4 Strategic Partnerships in the Fashion Industry

In line with previous subchapters, the literature on circular business models in the fashion industry also highlights the importance of strategic partnerships in a fashion company's value chain. A previous study by Sandvik & Stubbs (2019) found that collaborations with external stakeholders are critical when shifting from a linear to a circular business model. Their study is based on qualitative interviews with different stakeholders in the Scandinavian fashion industry. The main finding is that strategic partnerships are essential in order to enable textile recycling and to create a stream of recycled materials. These findings are supported by Stål & Corcellec (2017) who did a case study on seven Swedish clothing companies. The findings from the study indicated that strategic relationships between clothing companies and stakeholders e.g. recycling companies and collectors are needed in the innovation process. In conclusion, the literature agrees on the importance of strategic partnerships in a circular business model innovation process within the fashion industry. However, there is a lack of research in this context, both conceptual and empirical, which must be filled to understand the role of strategic partnerships in circular business model innovation processes of fashion companies (Stål & Corcellec, 2017).

## 2.4 Theoretical Framework

This section will present the theoretical framework that will be used to structure primary research and data analysis of this study. The theoretical framework, i.e. the industrial network theory, lays the foundation for the research by influencing what is researched and how the findings are interpreted (Bell, Bryman, & Harley, 2019).

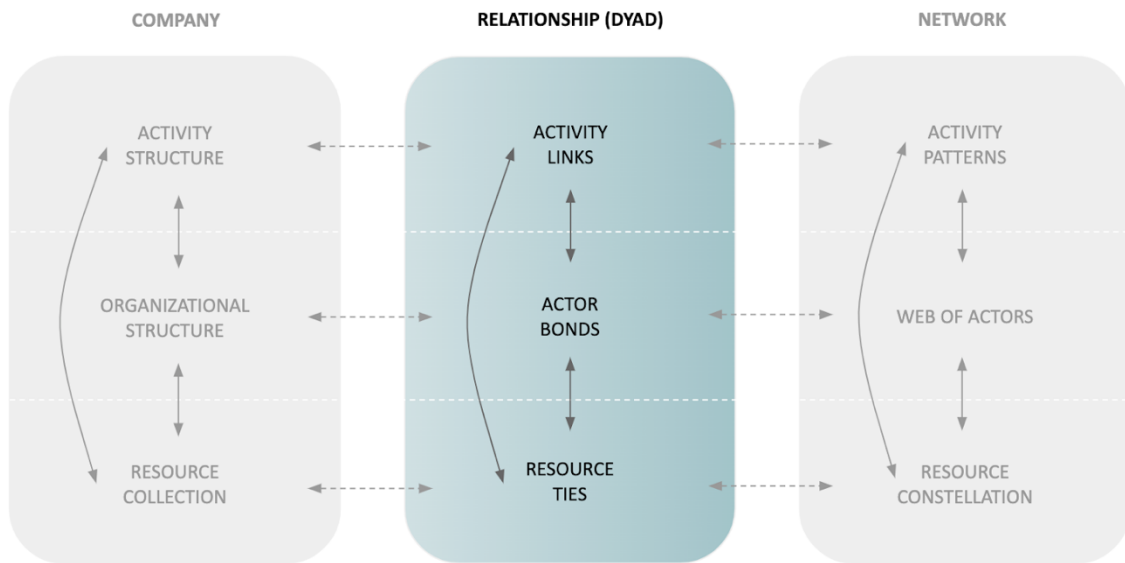
### 2.4.1 Industrial Network Theory

Traditionally, the relationship between two companies is viewed as an isolated entity that is developed independently of the external context. According to Håkansson & Snehota (1995), this traditional perspective does not take the complexity of the business environment into account. In order to handle complexity, companies must continually create and develop relationships with a broader range of stakeholders in the network. Hence, this traditional perspective on relationships is unsuitable for understanding how business relationships change over time (Håkansson & Snehota, 1995).

Conversely, the industrial network theory, which stems from the relationship perspective and network approach, views business relationships as a part of a larger network that is influenced by both internal and external factors. This perspective assumes that both parties involved in the business relationship affect each other just as much. Moreover, relationships consist of episodes, where each episode affects the relationship - and vice versa (Håkansson & Snehota, 1995). As a circular business model involves the whole business ecosystem of a company (Valkokari et al., 2014), this perspective is suitable to understand for describing and analyzing changes in strategic partnerships of fashion companies when innovating towards a circular business model.

### 2.4.2 The Activity-Resource-Actor (ARA) model

The activity-resource-actor (ARA) model proposed by Håkansson & Snehota (1995) is a framework based on the industrial business network theory. The framework is used to explain business relationships on an individual-, company-, and network level. In this master thesis, the focus is on the individual relationship (dyad) level. At the dyad level, the relationship consists of three interdependent layers, i.e. activities (links) on the top, actors (bonds) in the middle, and the resources (ties) on the bottom, as highlighted in the middle of Figure 1:



**Figure 1:** Activity-resource-actor (ARA) model as presented by Håkansson and Snehota (1995), with the Relationship (DYAD) dimension highlighted.

### Activity links

The activity links refer to different activities, e.g. commercial, technical, and administrative activities, that link a company to another when their relationship develops. Different activities can also link a number of other activities in the two companies when they are a part of an activity chain (Gadde, Huemer, & Håkansson, 2003). If the activity links are coordinated well, the two companies have the opportunity to create unique performance together through cost reduction and improved effectiveness. Thus, activity links are factors in the productivity of the companies involved, as well as the network as a whole (Håkansson & Snehota, 1995). For instance, Costen & Kumar (2005) state that activities ensure effective collaboration through the transmission of information. Additionally, a study by Prior (2012) showed that information sharing between two parties leads to better financial returns, as it enables better utilization of their assets. Moreover, as the relationship develops, changes in the activity links affect the activity pattern and vice versa. The importance of activity links depends on their type and strength, which is for instance affected by the two companies' ambitions for the relationship and complexity of their own activity structure (Håkansson & Snehota, 1995).

### Resource ties

Resources that connect two companies to each other are referred to as resource ties, which make up the second layer of the model (Gadde, Heumer & Håkansson, 2003). When a relationship develops, a company's tangible and intangible resources are utilized by each other to perform the activities together (Håkansson & Snehota, 1995). The resources, e.g. knowledge or commodities, are accessed and acquired through the relationship. Thus,

companies often seek other companies with matching resources (Ford et al., 1995; Gadde, Huemer, & Håkansson, 2003). Moreover, resources can be combined into competitive combinations over time, depending on how the ties are structured. The process of developing and utilizing resource ties is expensive and time-consuming but can create new opportunities if it leads to better productivity and innovation (Håkansson & Snehota, 1995). For instance, face-to-face meetings are found to lead to tangible and intangible benefits when the actors try to adapt to each other (Mason & Leek, 2012). The development of resource combinations is also based on how the actors determine the potential outcomes, hence the actor's context is of importance (Corsaro, 2014).

### **Actor bonds**

The third layer in the model is called actor bonds. According to (Chui, 2005, p. 1682), actor bonds can be defined as "personal ties that focus on service dimensions to develop buyer-seller relationships through interpersonal interactions, friendships, and indications". Moreover, these bonds are affected by the two companies' interest and attention towards each other (Håkansson & Snehota, 1995). If the actors become mutually committed to the relationship, they will to a larger degree get to know and perceive each other and their identities better. As a result, the companies will be able to learn together and increase the possibilities to utilize the resources and perform activities more efficiently (Corsten & Kumar, 2005; Gadde, Heumer, & Håkansson, 2003). According to a study by Prior (2005), the actor bonds were shown to be the relationship element with the most influence on competitive outcomes, because high levels of trust and commitment contributed to reducing opportunistic behavior. In addition, trust has also been found to increase the likelihood of mutual advantageous adaptive behavior and willingness to take more risks related to commitments of resources (Brennan & Turnbull, 1999; Huang & Wilkinson, 2013). Moreover, if trust can emerge, the parties have to be genuinely interested in learning about the culture of the counterpart (Huemer, 2014). According to Huang & Wilkinson (2013), factors such as experience and culture of the parties must also be taken into account. Moreover, the context affects how each actor determines potential value outcomes (Corsaro, 2014). Thus, the strength and nature of the actor bonds are important factors to consider when a relationship is analyzed (Håkansson & Snehota, 1995). However, regardless of the extent, the companies are committed to one another, there will always be uncertainty related to perception, trust, and beliefs (Håkansson & Snehota, 1995). Strong actor bonds are also hard to achieve, as it requires time and effort by both involved parties to get to know each other (Prior, 2005; Huemer, 2014). Moreover, the development of actor bonds leads to a wider web of actors that affect the present and future interaction of the actors involved (Ford, McDowell, & Tomkins, 1995).

### **The relationship (dyad)**

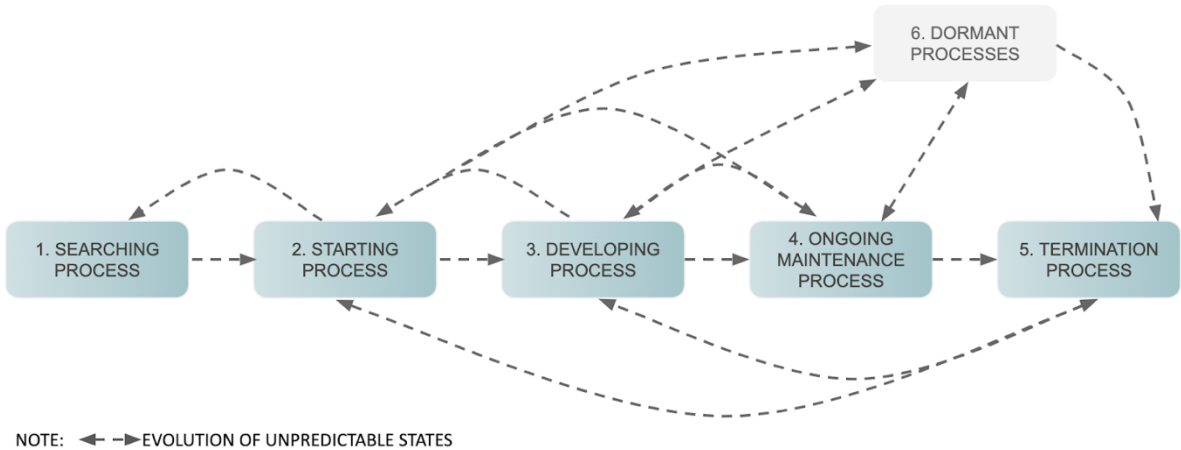
Håkansson & Snehota (1995) use the ARA model to describe and analyze development and changes in business relationships. These layers represent a source of value, where the



amount of value and development of the relationship depends on the interplay between the layers and how they are managed. The strength of the activity links, resource ties, and actor bonds will affect the performance of the companies and the relationship. When a change occurs, it affects all three layers in the relationship. For instance, if one or two companies change one of their activities, both resource ties and actor bonds are affected. The effects can be positive and negative, e.g. increased or decreased efficiency for the individual company or for both parties. The changes will therefore also affect the individual company in terms of what it can do internally and in other relationships. Moreover, a change in one of the layers might form new resource ties or actor bonds, or lead to adjustments in the activity pattern such as third parties.

### 2.4.3 States Model of Inter-Firm Network Relationship Development Process

The States model of inter-firm network relationship development process was developed by Batonda & Perry (2003). The model builds on previous research on the industrial network theory, where the business relationship development process evolves in unpredictable states instead of orderly processes over time Ford & Rosson (1982). Hence, the stages in this model can progress without step-by-step-order, for example through skipping a stage or going back one or several processes (Lena Aarikka-Stenroos, 2008). In the original model of Batonda & Perry (2003), five processes are outlined: searching, starting, development, ongoing maintenance, and termination. A sixth state, the dormant processes, is added in their revised model. In this study, the revised model is applied and illustrated in figure 2:



**Figure 2:** A revised States model of inter-firm network relationship development process presented by Batonda and Perry (2003).

### **Searching process**

The searching process begins when a buyer starts to recognize sellers for a relationship (Edvardsson, Holmlund, & Strandvik, 2008). In this process, the buying company searches for potential partners without committing to them, to keep its options open (Polonsky, 2010). Moreover, the potential partners are evaluated based on the company's experience with existing and previous partnerships (Ford, 1995), as well as how they fit together through different evaluation criteria (Styles & Hersch, 2005). The evaluation criteria are based on economic and social aspects (Batonda & Perry, 2003), as well as experience, uncertainty, and distance (Ford, 1995; Huang & Wilkinson, 2013). According to Ford (1995), uncertainty is related to the potential costs and benefits which are likely to be involved when dealing with a new partner. Distance between the two parties has several aspects: Social distance is unfamiliarity about individual relationships and ways of working. Cultural distance is based on different national characteristics, such as norms, values, and working methods between cultures. Technological distance is the difference between the two parties' product and process technologies. Time distance is the time the company must expect it to take from contacting the supplier until they receive the finished product or service. Lastly, geographical distance, which is the physical distance between the two parties (Ford, 1995).

### **Starting process**

Moreover, in the starting process, the buying company will initiate contact with potential partners in order to identify inter-firm and interpersonal dynamics, as well as their abilities and long-term compatibility (Aarikka-Stenroos, 2008). In addition, the parties will test goals and compatibility to disclose a set of mutual goals and objectives. Conversely, a study by Aaboen & Aarikka-Stenroos (2017) found that startups can be the one initiating contact by presenting their technology to the buying company. Also, according to Ford (1995), one of the parts is usually an initiator for a trial period where the aim is to create a mutual economic advantage. There is limited commitment and trust between the parties at this process (Huang & Wilkinson, 2013). According to Edvardsson, Holmlund, & Strandvik (2008), the relationship officially starts when a business agreement is reached.

### **Developing process**

In the developing process, the parties have regular contact and increased commitment regarding trial trading activities. The parties plan activities and responsibilities together, and try to create value based on their strengths (Ford, 1995). In order to create the optimal value in this process, dialogue is needed as the parties still might lack a mutual understanding of the goals (Leena Aarikka-Stenroos & Jaakkola, 2012). In addition, personal visits have been found to be important in this state for the parties to get to know each other better (Styles & Hersch, 2005). As the parties learn each other to know better, the trust between them will increase (Huang and Wilkinson, 2013). However, there is still

a limited commitment of resources between the parties, but they are starting to adapt to meet each other's needs (Ford, 1995).

### **Ongoing maintenance process**

In the fourth state, described as the maintenance process, the commitment to resources in the relationship is increased (Batonda & Perry, 2003). Some customers will contribute to value creation by informing the supplier about new industry requirements, usually the more experienced ones. Others will listen to the supplier's recommendations and thus act as "followers" (Aarikka-Stenroos & Jaakkola, 2012). At this stage, the different aspects of distance between the parties need to be reduced to increase the level of trust. This is because mutual trust and behavior lay the foundation for long-term rewards, as it reduces the risk for the involved parties (Dubini & Aldrich, 1991). To reduce social distance, the companies should exchange knowledge, and build social relationships that forge trust between people involved. Also, at this stage, it is normal for the seller to establish a local office and employment of local nationals to reduce the geographical distance (Ford, 1995).

### **Termination process**

In the termination process, the company will analyze the cost and benefits of staying in or exiting the relationship. For instance, a company can reach its relational capabilities with existing partners, and might need to cut old bonds and add new (Lechner & Dowling, 2003). The parties will also develop strategies to dissolve the relationship mutually. It is stated that in order to manage the termination process, the company must understand the process of dissolution (Dwyer, 1987). According to a theory-driven case study by (Alajoutsijärvi et al., 2000), the dissolution can be desirable or harmful, depending on the ending part's choice of strategy.

The literature highlights two main strategies in the termination process: exit strategy and voice strategy (Hirschman, 1970). An exit strategy could either be indirect or direct in the form of communication, and the choice between these is influenced e.g. by the strength of bonds built by the parties over time. With an indirect communication strategy, the company will provide its partners with "hints" and signaling the wish for exiting without conveying the message directly (Hirschman, 1970). On the other hand, direct communication would not leave the partner in doubt regarding what the ending company wants. For instance, the company states its exit intentions but with a desire to discuss the reasons and the problems related to the relationship, which is referred to as a revocable exit (Ford, 1995). The second strategy, the voice strategy, implies confronting the reason for potential dissolution together with the partner: both companies can still take steps to restore and maintain their relationship, perhaps in a modified condition. If this is successful, the termination process may end there. If not, or if the company is not able or willing to use a voice strategy, the termination process will advance (Ford, 1995). Furthermore,

Alajoutsijärvi et al. (2000) state that the company can use more than one strategy simultaneously and at different levels, such as at a personal or organizational level.

### **Dormant processes**

Lastly, in the sixth state which is called the dormant or re-activation process, the whole relationship development process can either start over or it can go into an inactive state. This depends on the status and result of the project (Polonsky, 2010). Re-activation can be a result of emergencies of new business opportunities or resumption of business activities (Batonda & Perry, 2003). When a relationship is reactivated, the companies can skip development activities that are required in new relationships, as they for example understand each other's culture or processes (Polonsky, 2010).

## **2.4.4 Implications for Theory Building**

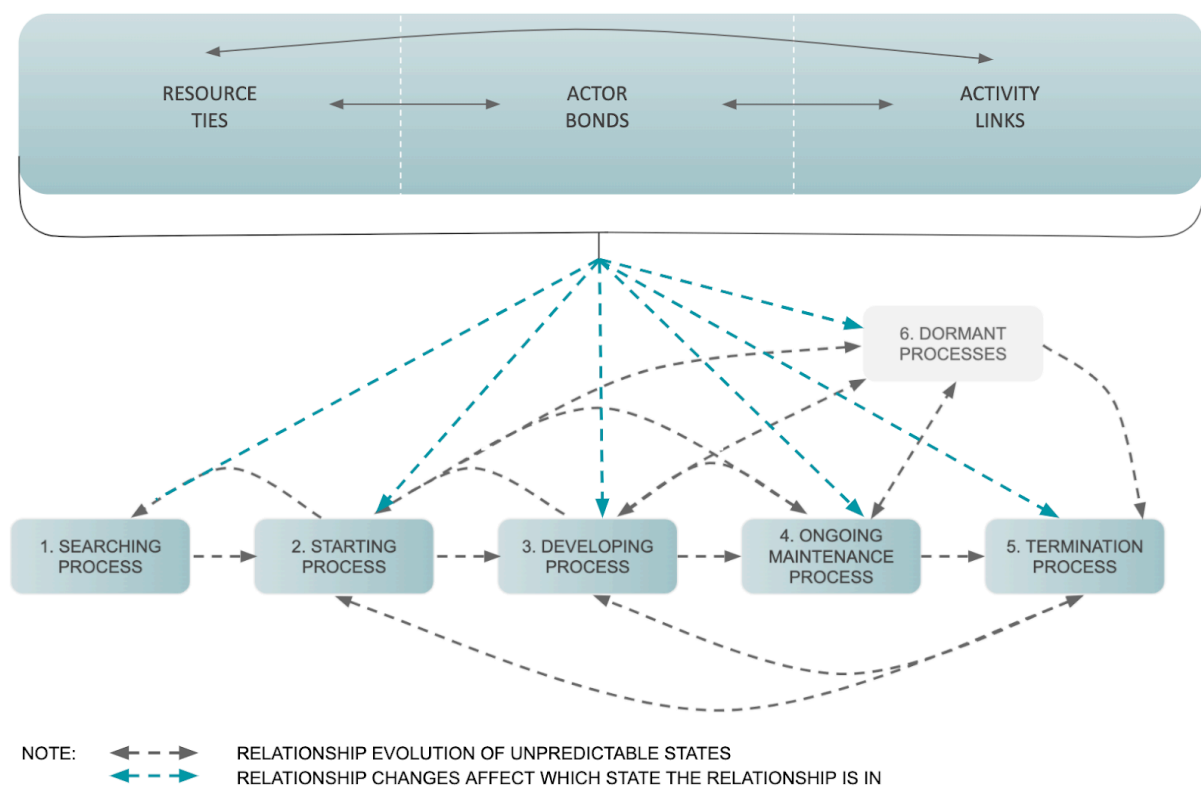
In this thesis, individual relationships will be the starting point for understanding how strategic partnerships of fashion companies change when innovating from a linear to a circular business model. According to Ford et al. (1995), an individual relationship must be seen as a process of interactions between two active parties, where interactions refer to previous, current, and future episodes within the relationship. Episodes are triggered by external factors, such as technological, social, and cultural developments, and internal factors, such as values or ambitions (Håkansson & Snehota, 1995). Moreover, each episode in the relationship is affected by the state and strength of the specific relationship, i.e. the resource ties, actor bonds and activity links. This is because the involved parties will approach each episode on the basis of many factors, for example, their commitment to and perception of each other (Ford, 1995). Additionally, each episode is affecting the relationship through changes in resource ties, actor bonds, and activity links, as well as the state of the relationship. Thus, a relationship can be described as "(...) *a chain of episodes in which the past and the future matter*" (Håkansson & Snehota, 1995, p. 10).

## **2.4.5A Combined Model for Strategic Partnership Changes**

In order to investigate how the strategic relationships of fashion companies change when innovating to a circular business model, the authors have developed a model based on the industrial network theory. This model is illustrated in figure 3 and is a combination of the ARA model and the Revised States model of the inter-firm network relationship development process. The combined model is used to understand and analyze how relationships change when different episodes occur, the perspective of the process state, and the three dyad layers. For instance, a single episode can cause a change in an activation link, which again can affect the whole relationship, which might lead to the termination of the relationship. Furthermore, when the strategic partnerships are analyzed both on a case-level and company-level in light of the combined model, similarities and

differences in how they change and any dependencies between them will be highlighted on a cross-case level.

The two individual models have some limitations. The ARA model does not describe which changes that produce certain effects - it only says something about where changes in relationships occur (Håkansson & Snehota, 1995). On the other hand, the revised States model of inter-firm network relationships development process does not focus on the business network which is important in the industrial network theory (Aarikka-Stenroos, 2008). However, when these two models are combined, it is possible to investigate which changes that produce certain effects in the ARA model by analyzing the episodes in light of the States model.



**Figure 3:** The combined model based on the ARA model by Håkansson and Snehota (1995) and the Revised States model of inter-firm network relationship development process presented by Batonda and Perry (2003).

## 3 Methodology

This chapter outlines the research method that is used in this master thesis and the rationale behind it. First, the research design is showcased, followed by the selection criteria and presentation of the cases. Then, the conduction of data acquisition, as well as the structuring and analysis of data, is presented. Lastly, reflections related to the method are addressed.

### 3.1 Research Design

In this master thesis, the authors addressed the research question "*How will the strategic partnerships of fashion companies change when innovating from a linear business model to a circular business model?*", which is a "how" question about experiences or behaviour of strategic relationships. To address this, a multiple case study research design (Yin, 2012) with a qualitative approach has been chosen. According to Pratt (2009), qualitative research is suitable when exploring "how" questions and to understand developing processes. Furthermore, this master thesis looked at strategic partnerships from the focal company's perspective. With this perspective, it is suitable to use a case study to understand changes in the strategic relationships (Yin, 2012). In addition, circular business models is a relatively new research field, which indicates that important contextually may be unknown. Since these factors therefore can be difficult to measure, a case study approach can be particularly useful (Gauri & Grønhaug, 2010). The literature on circular business models lacks empirical research, and a qualitative case study design can help fill this literature gap.

An analysis of relationships in a business network is a complex task where many different actors can be involved, and where several factors and dimensions for each relationship has to be explored (Håkansson & Snehota, 1995). To accommodate the complex nature of relationships, a multiple-case study design is chosen as the evidence from multiple datasets is considered to be more compelling, thus regarded as being more robust. This will provide a deeper understanding of the context of the strategic partnerships of fashion companies and give a better basis for comparing them. In total, the authors have studied 16 strategic partnerships across four fashion companies.

## 3.2 Selection and Presentation of Cases

The 16 strategic partnerships, i.e. cases, studied were between Norwegian fashion companies and their strategic partners. In order to select appropriate strategic partnerships, the authors started the process by screening relevant focal firms; i.e. fashion companies. The different fashion companies were evaluated purposefully within the criteria, as presented in chapter 3.2.1, which resulted in the selection of four fashion companies. Together with the respondents from the companies, the authors selected 3-5 strategic partnerships per company. In order to select relevant cases for the study, the authors wanted to examine partnerships that were established, developed or ended because of the company's innovation towards a circular business model.

### 3.2.1 Selection Criteria

As this thesis studied the innovation from linear to circular business models, one of the selection criteria for the focal companies was that they were in the innovation process, and already had implemented one or more circular initiatives with a strategic partner. In addition, the fashion companies had to be directly engaged in developing and selling fashion products to consumers. This criteria was put in place as the greatest environmental challenges in the textile industry are related to the production process, and the authors wanted to ensure the study encompassed companies that directly bore the responsibility. This also ensured that service-only companies were excluded. Moreover, the scope was limited to Norway as the authors themselves are Norwegian and directly involved in the fashion industry through their own startup. As they also speak the same language, it was easier to establish contact with and interview the focal companies. In addition, there is a lack of research within this field in the Norwegian fashion industry.

In the following list, the complete selection criteria for the fashion companies are presented. The selected companies had to match all of the criteria:

- Norwegian-registered, either fully or as a subsidiary.
- Within the fashion industry.
- At least 5 full time employees.
- Are in the process of moving from a linear to a circular business model.
- Have implemented at least three circular initiatives within its value chain with different strategic partners.
- Directly engaged in developing and selling fashion products to consumers.
- Have interviewees available in the time period of the study, which have sufficient information or involvement with the strategic partnerships.

After selecting the criteria, the authors listed all the fashion companies in Norway that fulfilled these criteria in a document. Then, they worked systematically through the list by contacting all of them, and made sure to update the document after being in touch with a company. Lastly, they ended up with four companies that wanted to participate in the study and matched all of the criteria listed above. Some of the chosen companies are leading actors in the Norwegian textile industry, resulting in a highly interesting basis for the research. The limitations of these criteria are further discussed in subchapter 3.3.2.

Furthermore, as mentioned in section 3.2, the authors and the respondents selected 3-5 cases, e.g. strategic partnerships, per company. The criteria for this selection were discussed when the authors initiated contact with the companies, and also sent to respondents through email before the interviews. The selection criteria were as followed:

- The strategic partnership is related to the circular business model transformation process.
- The strategic partner is an external company.
- The strategic partnership has either stated, developed, or ended due to circular business model innovation.

### 3.2.2 Presentation of Selected Companies and Cases

This subchapter provides a brief introduction of the selection of each fashion company and its strategic partnerships, i.e. the cases. A more in-depth introduction about the specific cases is presented in chapter 4 - Findings and Analysis.

#### **Company A**

Company A is a leading actor in outdoor apparel and equipment in the Norwegian market. The company was founded in 1908, has a yearly revenue of 500-600 million NOK, and approximately 200 employees. Company A designs and produces their own clothing and equipment in partnership with over 30 factories worldwide. They are also in a substantial shift towards a more circular business model and have started several circular initiatives with strategic partners in the last couple of years. In this thesis, five of their partnerships are studied and analyzed, including one textile producer partnership, two marketing partnerships, one logistic supplier partnership and one cleaning partnership. These will be further described in chapter 4.1.

#### **Company B**

Company B is the Norwegian subsidiary of one of the world's largest clothing companies. Company B manufactures and sells clothing directly to consumers via proprietary physical and online stores. In 2018, they had revenues of NOK 4.3 billion and 3000 employees



across 400 stores in Norway. Both the subsidiary and the parent company are undergoing substantial shifts towards a circular business model, with several circular initiatives on the global and local level. Company B provides useful diversity to the study, as they are substantially larger than the other focal companies and fully owned by an international publicly listed corporation. The implications and limitations of this is further discussed in the analysis in chapter 4.2. The authors have studied and analyzed three of the company's partnerships: a recycling partnership, in-store clothing repair partnership, and a network partner.

### **Company C**

Company C is a medium-sized Norwegian textile company with a yearly revenue of approximately NOK 20 million, with five employees in Norway and two in China. The company designs clothes that are sold directly to consumers through different brands. One of the brands was chosen as the subject of this research, as it is the only one involved in selling directly to consumers. In order to produce and deliver the clothes, the company has partnered with several manufacturers and logistic partners. During the last couple of years, the company is undergoing considerable shifts towards a circular business model, involving changes in several partnerships. In this study, five different partnerships have been studied and analyzed: three clothing production partnerships, and two logistics partnerships.

### **Company D**

Company D is a small-sized startup with a yearly revenue of NOK 8 million and 5-7 full time employees. The entire philosophy of the company is built on sustainability, and it is the most innovative company in this study. They have received critical acclaim for their sustainability initiatives, and almost every part of the company has some form of sustainability aspect considered. Although well on its way, the company is still undergoing substantial shifts toward an even more circular business model, and new and existing partnerships are being further developed due to new initiatives. In this thesis, three partnerships have been studied and analyzed, including two clothing production partners and an IT partner.

In table 1, the participating companies and respondents are listed:

Company Alias	Role at company	Interview duration
A	Sustainability Manager	1.5 hours
A	Project lead, circular initiative	1 hour
B	Sustainability Manager	1.5 hours
C	CEO	1.5 hours
C	COO	1.5 hours
D	CEO and founder	1.5 hours

**Table 1:** Overview of the respondents in the case companies.

### 3.3 Data Acquisition

The primary data was collected through semi-structured interviews of one or two employees directly connected to circular initiatives the focal company had with its strategic partners. Furthermore, secondary data such as company size, history, and other facts were collected from the case companies and their partners' websites and were included to supplement the primary data. Later, the data were categorized and then analyzed by applying the theoretical framework from section 2.4, as explained in the next subchapters, 3.3.1, and 3.3.2.

#### 3.3.1 Semi-Structured Interviews

Semi-structured interviews can be described as "a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of questions" (Bell, Bryman, & Harley, 2019, p. 211). The interview guide was designed in advance and customized to each respondent depending on their position in the business relationship and network, as suggested by Flick (2015). Moreover, the questions were built upon the industrial network theory and circular business model literature in order to fulfill the study's research question.

In semi-structured interviews, the interviewer should use clear and understandable language in order to prevent misunderstandings. In particular, it is important that the participants have the same understanding of the discussed concepts, in order to provide accurate data to answer the research question (Ghuri & Grønhaug, 2010). To ensure

this, the authors sent out an interview guide prior to the interview, in addition to clarifying a common understanding of relevant concepts at the beginning of each interview.

Furthermore, the interviewers have to make sure there is enough time per question and simultaneously ensure that all necessary questions are answered, in order to get sufficient information, as suggested by Ghauri & Grønhaug (2010). To balance this, the interviews were carefully directed with time- and progress tracking. The authors split the responsibilities between an interview leader, responsible for holding dialogue and asking the main questions, and an interview assistant that made sure to ask follow-up questions to collect necessary information and keep track of time. The reliability of this is further discussed in chapter 3.5.2. In order to acquire honest and unfiltered reflections on various relationships, it was considered appropriate to anonymize the respondents and the companies. In this way, the respondents could also share experiences from challenges and conflicts in the partnerships.

### 3.3.2 Limitations With Data Collection and Extraordinary Circumstances due to COVID-19

Semi-structured interviews can be described as “a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of questions” (Bell, Bryman, & Harley, 2019, p. 211). The interview guide was designed in advance and customized to each respondent depending on their position in the business relationship and network, as suggested by Flick (2015). Moreover, the questions were built upon the industrial network theory and circular business model literature in order to fulfill the study’s research question.

In semi-structured interviews, the interviewer should use clear and understandable language in order to prevent misunderstandings. In particular, it is important that the participants have the same understanding of the discussed concepts, in order to provide accurate data to answer the research question (Ghauri & Grønhaug, 2010). To ensure this, the authors sent out an interview guide prior to the interview, in addition to clarifying a common understanding of relevant concepts at the beginning of each interview.

Furthermore, the interviewers have to make sure there is enough time per question and simultaneously ensure that all necessary questions are answered, in order to get sufficient information, as suggested by Ghauri & Grønhaug (2010). To balance this, the interviews were carefully directed with time- and progress tracking. The authors split the responsibilities between an interview leader, responsible for holding dialogue and asking the main questions, and an interview assistant that made sure to ask follow-up questions to collect necessary information and keep track of time. The reliability of this is further

discussed in chapter 3.5.2. In order to acquire honest and unfiltered reflections on various relationships, it was considered appropriate to anonymize the respondents and the companies. In this way, the respondents could also share experiences from challenges and conflicts in the partnerships.

## 3.4 Data Analysis

After collecting primary data, the authors analyzed the raw material. In a qualitative research method, this implies dividing the data into pieces or elements in order to understand and theorize it (Kvale & Brinkmann, 2015). First, the authors transcribed the oral interviews into written text, as suggested by Kvale & Brinkmann (2015). Later on, the authors coded the interviews based on the theoretical framework described in section 2.4, before comparing them to each other. In this way, it was possible to see if they perceived the data equally, and identified the same findings. By categorizing the data based on the factors in the combined framework presented in 2.4.5, it would be easier to sort out the analyzed material that is relevant for answering the research question (Bell, Bryman, & Harley, 2019).

Then, the data were analyzed based on the theoretical framework in three steps: First, changes in each of the individual strategic partnerships were analyzed and summarized. Second, all individual partnerships were analyzed across each other to summarise the main findings per fashion company. Third, analysis of the changes in strategic partnerships of the different focal companies was compared and analyzed against each other in the cross-case analysis in chapter 4.5.

## 3.5 Methodological Reflections

According to Leseth (2018), validity, reliability, and generalizability are key concepts in assessing the quality of empirical research. These concepts will be discussed in the following.

### 3.5.1 Validity

In qualitative research, validity is about how well one has researched what one intended to investigate, and whether the results are true (Krumsvik, 2014). Taking this into account, the authors raised questions about what they perceived in the interview process, and how this could affect the results. They recorded all the interviews and transcribed verbatim to

make sure all oral data was retrievable when analyzing. According to Kvale & Brinkmann (2015), this is an important step to strengthen the internal validity. Moreover, by applying a theoretical framework, researchers could easily structure and compare the interview data (Bell, Bryman, & Harley, 2019). By applying the combined model based on the Industrial network theory, the data could be easily compared and structured in a clear manner. Furthermore, the authors discussed the trustworthiness of the interviewees to verify that they gave genuine answers. However, two of the authors of this master thesis already had knowledge about the fashion industry and circular business models, which may have affected the internal validity negatively by potential preconceived conclusions. That being said, the third author did not possess this knowledge and made the group enter the data collection with a more objective perspective.

### 3.5.2 Reliability

According to Yin (2012), reliability can be defined as "the consistency and repeatability of the research procedures." Through high awareness about interview and data analysis, reliability can help to avoid methodological mistakes (Krumsvik, 2014). To ensure this, the authors set several restrictions. Firstly, the selection of respondents was strategically planned in order to ensure the credibility of the answers, which in turn secure reliability. The authors made sure the respondents had sufficient knowledge about circular business models and direct involvement in the included strategic partnerships. However, by only interviewing the focal company and not its strategic partners, this thesis only discusses one perspective of the relationship. If both sides were considered, the findings could be different. Furthermore, to ensure high reliability, the interview questions were formed upon the circular business models literature and sent out to the interview objects in advance. By doing so, there was a higher chance that the results of the interviews were not influenced by the author's own opinions. However, due to the case companies being at different stages in the innovation process, the interview guide was only followed to some extent. The authors tried to lead the conversation in a natural manner to investigate the change process, which resulted in different questions, and outcomes from the respondents. After transcription and summarizing, the authors had a meeting to discuss and present the findings to each other. This process ensured equal sharing of information between the authors, and that everyone had the information necessary to answer the research question.

### 3.5.3 Generalization

Generalization also referred to as external validity, is about the universality of the findings (Leseth, 2018). It raises the question about to what extent the results can be transferred to similar situations, for example to other settings, populations, and periods (Ghauri & Grønhaug, 2010). In qualitative case studies, it can be difficult to transfer the results due to the tendency of small samples (Yin, 2012). In this master thesis, the case companies

are of different sizes, and phases of the transformation process, which underpins the difficulty of generalization. Thus, these limitations will restrict the external validity of this study. However, the authors have focused on building the research design on existing research so that some theoretical generalizations can be made, meaning that theoretical concepts from the study can be used to contribute to further research.

## 4 Findings and Analysis

In the following, findings from the collected data will first be presented and analyzed on an individual relationship level. Further on, the changes in the relationships will be analyzed within each company and later across the fashion companies.

### 4.1 Changes in Strategic Partnerships of Company A

Company A is a leading outdoor apparel and equipment brand in the Norwegian market. Since it was established, the company has focused to a certain extent on the circular initiatives by offering product repairs. The company has its own sewing room with 6-7 employees working full time on repairs. More recently, they have increased their focus on circular initiatives and eventually aims to integrate sustainability into every stage of the business model. At the moment, the innovation department is developing new sustainable materials with one of the partners; A1. Furthermore, they are working with their partners A2 and A3 to promote their sustainable focus externally and testing a rental system of children's park suits with two strategic partners, further referred to as A4 and A5. The authors interviewed Company A's sustainability manager as well as the project leader for the rental project of park suits.

#### 4.1.1 Establishing a New Strategic Partnership with Textile Manufacturing Partner A1

On the basis that Company A wanted to transform towards a circular business model, they started a new partnership with a Finnish fiber producer. The manufacturer, further referred to as A1, makes textile materials from tree pulp and has developed a unique technology that spins threads without using harmful chemicals. This is a new way of making fiber, and is still in a pilot stage today, one year after Company A and A1 formed their relationship.

##### **Episode 1: Initiating Contact with A1**

One year ago, Company A came across an article about A1 and their unique production method. Due to Company A's increased focus on circular initiatives, the article aroused great interest, and they immediately saw an opportunity for collaboration. At this point,

Company A and A1 had no connection to each other. When the parties got in touch, the Sustainability Manager of Company A pointed out some challenges:

*They were difficult to find and contact, and we had to go through several links to get in touch with them. We knew that A1 was popular, and was contacted by major textile players who wanted to buy rolls of textiles from them (...).*

Ford (1995) suggests that when evaluating a new partner, the firm should include a comparison with existing partners. Since Company A never had collaborated with similar partners, they had no basis for comparing A1 against other partners. Furthermore, despite the challenges with reaching out to A1, Company A succeeded in getting in touch with them through their network. Because of A1's unique technology and popularity among actors, Company A had to accept the troubles with establishing contact, in the beginning, knowing what potential benefits this partnership could bring in the longer run. The spontaneous discovery, and initiative to contact A1, shows that Company A did not go through a structured searching process where it considered several potential partners, as recommended by Batonda & Perry (2003). When the parties finally established contact, they decided to run a trial project. Both parties found it important to be able to test and experiment with the unique fiber, and they had a clear vision for what type of products they wanted to test. The findings indicate that the partnership had developed from the searching process to the starting process, as they were trying to identify mutual goals (Aarikka-Stenroos, 2008), and had decided to enter a trial project, as proposed by Larson (1992).

## **Episode 2: Visiting A1's Factory**

After entering the starting process, Company A was invited to A1's factory in Finland:

*They are very secretive and even the pilot factory that is placed far into the forest they are very protective of. But we were allowed to send a small delegation with product developers, a photographer and actually our CEO to visit the factory. We got a very good tone with A1 during the visit and found that we have common values about sustainability. Also, A1 required us to take sustainability into account in order for them to collaborate with us (Sustainability Manager, Company A).*

By visiting A1's factory in the starting process, both parties showed willingness and ability to invest time and be open and sharing early in the relationship. By visiting the textile producer, Company A got to understand how A1 worked, as well as establish a social relationship through shared values about sustainability and personal connections. According to Ford (1995) and Huang & Wilkinson (2013), this reduces the social and cultural distance in a relationship and may lead to stronger actor bonds. The finding above indicates that the visit helped the parties to start building trust, which may have been a



foundation for the further development of the partnership. However, there is still limited commitment and trust between the parties in this state (Wilson, 1995; Huang and Wilkinson, 2013), as indicated in the previous findings.

### **Episode 3: Trial Project of Circular Products**

After the starting process, the partnership between Company A and A1 further moved into the developing process with a test project aiming to create 20 products that were 100% recyclable. It should be mentioned that the test project not only included effort from Company A and A1 but also other strategic partners of Company A. The work was divided so that A1 created the thread, a supplier in Italy spun it before it was sewn at Company A's factory in Vietnam. Normally it is difficult to only produce a small amount of one type of product at a large factory, but because of Company A's close relationship with the factory in Vietnam, they aimed to set up a production line for one week. The inclusion of Company A's other partners seemed to be a benefit when entering the test project with A1:

*I think it was important for A1 that we could test the products at our factory in Vietnam. You need to test an approximate industrial production once you have this fabric in order to know how the threads should be, how it should be woven, etc. (Sustainability Manager, Company A).*

According to Gadde, Huemer, & Håkansson (2003) and Ford (1995), resources are accessed and acquired through the relationship, and thus, should be matched. In this case, the parties were able to create matching resource ties through the new trial activity link: A1 held a unique technology and production methods, while Company A had access to crucial network partners. Moreover, the findings show that the parties were increased committing through activity links and resources ties related to the test project, which is typically for the developing process (Ford, 1995). Thus, the trial project was important for the relationship's further progress.

### **Episode 4: Creating Several New Activity Links**

The first 20 products were successfully launched as trial products in January 2020, one year after the establishment of the relationship. As a result, Company A has entered a long-term product development collaboration with A1, including personal contact and several new circular activities. For instance, A1 expressed to Company A that they could recycle the 20 products through the same environmentally friendly process they had developed. Company A's Sustainability Manager found this very attractive:

*This new way of recycling textile into textiles was an important element of the continuation of the relationship because it is another unique method that is not common in the industry today.*

The relationship has implemented several new activity links, including recycling and methods of dyeing, treatment, and waterproofing of the material, which increased the need for both tangible and intangible resources from A1. By adding new activity links in the relationship, the resource ties between them were affected, because A1 handled both the production and processing of the material and recycling of it. The findings indicate that these activities strengthened resource ties by combining resources in a unique way, as recommended by Gadde, Heumer, & Håkansson (2003). Furthermore, the creation of an activity chain indicates that the partnership has developed into an ongoing maintenance process, as well as increased the commitment of resources (Batonda & Perry, 2003).

### **Summary**

Although Company A had not initially planned this circular activity, its external focus led to an opportunity with a new strategic partner. The establishment of personal contact through a physical meeting early in the relationship reduced the social and cultural distance, leading to a solid foundation for further development of the partnership. The episodes are closely linked in this case by showing one positive episode leading to the development of the relationship, for instance, that the parties gradually committed to through several new activity links. Thus, the resource ties became stronger and a foundation for a long-term relationship was built.

## **4.1.2 Establishing a New Strategic Partnership with Marketing Partner A2**

A2, a Norwegian fashion design school, established a strategic partnership with Company A in the fall of 2018. Since then, the partnership has evolved to consist of several circular activities, such as redesign projects and repairing services, as part of the transformation towards a more circular business model.

### **Episode 1: Redesign Project with Students from A2**

The partnership was established as a result of that Company A did not want to support Black Friday in 2018, but instead promote “green” fashion. Sustainability Manager at Company A contacted A2, one of the most prestigious design schools in Norway, and proposed a redesign collaboration. After a short time, A2 accepted the request and got some of their students to work on the redesign project.

*After pitching the idea to A2, the design students received 250 used products from us and redesigned them for spectacular fashion items featured at a Black Friday fashion show that we hosted together with them (Sustainability Manager, Company A).*

This approach for establishing a new relationship shows that Company A did not evaluate different potential partners, leading to an unstructured searching process. Thus, Company A risked collaborating with the wrong partner because it did not evaluate for instance uncertainty, distance and experience, as recommended by Ford (2001). However, the parties did reduce some risk when entering the starting process due to limited commitment in the form of tangible and intangible resources in the redesign project, which is in line with research by Wilson (1995) and Huang & Wilkinson (2013). By outsourcing the needed capabilities, Company A reduced its financial risk related to the trial project, as A2 used their design students as free working capital, and provided the project with sewing machines and materials, which they already possessed.

### **Episode 2: Establishing a New Activity Link for Several Purposes**

As a result of a successful collaboration between Company A and A2 in the previous episode, the relationship further developed in the summer of 2019. Company A wanted to involve the students from A2 in another circular initiative that included a three week road trip with a car furnished as a sewing room. With some employees from Company A and students from A2, they traveled to different places in Norway and offered repairs of used products to their customers. After a successful repair initiative, the parties went on a similar road trip in January 2020, and will conduct another one this summer.

Firstly, the new activity links that were created in the relationship affected the resource ties by connecting more resources to the relation (Håkansson & Snehota, 1995). In this episode, the trip required investments in a car and human capital from both parties. Through increased commitment, Company A and A1 expressed willingness to invest in the relationship, helping to strengthen their actor bonds. Increased commitment through new activities are common for the developing process (Ford, 1995). Furthermore, by repeating the new activity it indicates that the parties are increasingly investing in the relationship. According to Corsten & Kumar (2005) and Gadde, Heumer, & Håkansson (2003), this helps build even stronger actor bonds and mutual trust, and thus lay a foundation for a long-term relationship.

Furthermore, the new activity link was created as a part of the circular business model transformation. However, Company A also aimed to improve its brand reputation with this activity:

*(...) We see that the initiatives we take with the students perform very well in terms of marketing and communication, especially towards younger audiences that we also want to reach. (...) We use a lot of social media like Instagram and Facebook when we're out traveling with the car and it might not be as fun with 50+ ladies on tour, but it's fun with young girls who can help create good content on our social*

*media (...) We also look at this initiative as a recruitment platform for hiring design students in the future (Sustainability Manager, Company A).*

The statement shows that there were several drivers for the new circular initiative. Beyond becoming more sustainable internally, Company A wanted to promote itself as an environmentally conscious player for potential employees and other stakeholders. The branding motivation was specially directed to appeal to the younger customer group, by marketing themselves through design students in social media.

### **Summary**

The process of establishing a partnership with A2 proceeded quickly from initial contact to a trial project. The parties limited commitment to reduce risk in the starting process, and further developed the partnership after the successful fashion show. When entering the developing process, Company A and A2 increased commitment by strengthening resource ties through several new activity links. Through these activities, the parties managed to create a mutually beneficial collaboration by contributing to extending the product's lifetime through repair and redesign activities. The partnership was also beneficial for recruitment and branding.

### **4.1.3 Developing an Existing Strategic Partnership with Marketing Partner A3**

A3 is a large Norwegian outdoor organization that works to promote active, environmentally-friendly outdoor life. The partnership between Company A and A3 was established 20 years ago. Throughout this time, their relationship has developed from being a product- and trip collaboration to becoming a sustainability-driven collaboration with repair, rental, and second-hand services. These shifts in activities helped Company A innovate towards a circular business model.

#### **Episode 1: Changes from Selling to Renting Products Through A3**

At this stage, the relationship is in the ongoing maintenance process, where the parties are mutually committed. For instance, A3 has sold Company A's products in their stores for several years, but due to Company A's increased focus on circularity, they initiated to test renting of clothes instead of selling:

*Both we and A3 wanted to focus more on sustainability and especially circular services, so we have now entered into a test collaboration for rental with one of A3's outlets. So it has evolved from being a trip and product collaboration to becoming a more sustainable collaboration (Sustainability Manager, Company A).*

When Company A decided to focus more on circular services, such as renting its products, there was a change in activity links between the parties. According to Håkansson & Snehota (1995), a change in activities may affect actor bonds and resource ties. This change may have strengthened the actor bonds, as it shows that A3 was flexible to change together with Company A. The adaptability to change may prove that the parties were able to recognize mutual benefits and values, which aligns with research by Batonda & Perry (2003). However, even though the relationship is in an ongoing maintenance process, the parties still conducted a trial project for the new circular initiative. This proves that even if Company A and A3 trust each other, there is still a demand for low risk-taking and limited investment in the resource ties when establishing a new activity link. According to Polonsky (2010), new business opportunities can require reactivation of the relationship, which was displayed in this case through the new activity.

### **Episode 2: Implementing Other Circular Initiatives**

Other circular initiatives that were developed in the ongoing maintenance process were for instance a repairing activity at a Norwegian music festival. Company A invited young volunteers from A3 to help repair the participants' clothes during the festival. In advance, Company A offered repair training to the volunteers, and together they repaired over 300 products during the festival. In addition, A3 also contributed during the repairing road trip, presented under 4.1.2:

*When we announced that we were going on a repair trip, A3 contacted us and invited us to visit their offices to provide the repair services. We knew that their outlets were nice spots to reach our customers so it was very helpful (Sustainability Manager, Company A).*

First, the repairing service at the Norwegian festival shows how Company A utilized its partners' human capital, even though A3 did not possess the needed capabilities to conduct the task in advance. This indicates that capabilities were not a driving force for this activity. However, Company A did use A3's position in the market to strengthen its brand associations as an environmentally conscious brand. Next, A3 offered its facilities to Company A in relation to the road trip. Thus, the relationship further developed by strengthening resource ties and establishing new actor bonds. According to Håkansson & Snehota (1995), strengthening resource ties and actor bonds will affect the performance of the companies in the relationship. In this case, the performance outcome increased as Company A got to promote their repairing service at attractive places, and thus increase its visibility as an environmentally conscious brand.

### **Episode 3: Employment branding as a Strategic Benefit of the Relationship with A3**

Lastly, employment branding has been a core activity in the partnership since the parties, several years ago, entered the ongoing maintenance process.

*We have become tour guides through A3. The first thing our new employees have to do is to spend two days outdoors and get trained as a tour leader. We want our employees to be outdoors a lot and be part of the trips that A3 hosts. A3 sells and rents our products, and all those who are tour leaders and active in A3 also use our products (Sustainability Manager, Company A).*

This indicates that Company A wants its employees to share a passion for outdoor activities and nature, something that helps build a strong company culture with sustainability as a core value. In other words, Company A uses its strategic partnership with A3 not only to innovate towards a circular business model but also to strengthen their employees' competence and company culture. Strong actor bonds increase the possibilities to utilize the resources and perform activities better across the companies (Corsten & Kumar, 2005). Through the strong actor bonds between Company A and A3, they have been able to utilize the relationship for more than just the implementation of circular initiatives, as it connects the relationships through several activity links across the companies.

#### **Summary**

The development of the existing long-term partnership between Company A and A3 shows that the parties established several new actor bonds by implementing new activity links. Through A3, Company A has strengthened its brand position and built a stronger company culture as a sustainable actor, showing that the relationship is beneficial for more than just circular initiatives.

#### **4.1.4 Establishing a New Strategic Partnership with Logistics Partner A4**

As mentioned in the introduction to subchapter 4.1, Company A is currently working on developing a rental system for children's park suits. One of the key partnerships in this project is between Company A and a new logistic partner, further referred to as A4. The relationship started as a trial project in November 2018 and is still in a test phase today.

##### **Episode 1: Choosing the Right Logistic Partner for the Project**

When Company A was in the searching process for a potential new partner, they attended a sustainability event to reach such strategic partners. At the event, they got in touch with A4, which made the logistic provider a potential partner for the rental project. At this time,

Company A had several alternatives they considered for the project. They already collaborated with a logistic supplier on other business areas that could perform the job, and they knew there were several actors that offered such logistic services. However, the reason for establishing a new strategic partnership with A4 was influenced by several things:

*The reason we chose A4 was quite simple. First, we wanted to make it as easy as possible for the customer and ourselves in a pilot project. The customer gets the package delivered directly to the door at no extra cost, and we do not need to involve IT and develop a solution we do not know if we will use it in the long term. Also, they use existing delivery routes, so from a sustainability perspective, we just added an extra delivery that was already going to the same place. So the climate calculation did not get any higher (Project leader, Company A).*

Company A attended the event to seek contact with potential partners, before evaluating various partners without committing to them. According to Polonsky (2010), the searching process normally involves several candidates to keep the options open for the focal firm. Furthermore, the finding above shows that an important evaluation criterion was that the partnership should easily enter a test project. The demand for limited commitment in the searching process corresponds to Ford (1995) and Huang & Wilkinson (2013), which states that the company must assess uncertainty. For instance, uncertainty related to the potential costs and benefits that are likely to be involved when dealing with a new partner. Furthermore, Company A identified financial benefits from working with A4, by outsourcing a part of the rental system instead of developing a system internally, as the budget for the project was limited. The environmental aspect of evaluation indicates that Company A's values around sustainability may be an important aspect when choosing their strategic partners for a circular initiative. According to Batonda & Perry (2003), the economic and social criteria are included in the searching process, which somewhat coincides with the findings. Thus, after this episode, the relationship developed to the starting process.

## **Episode 2: Restrictions with Changes for the Solution**

In the starting process, the partners worked on testing the rental system with test users. Since A4 is an established actor offering a fixed solution, some challenges and limitations arose in this process. Company A has a strong focus on service design and user experience, and wanted A4 to customize their solution to match Company A's visual profile and customer journey:

*I would like to have the opportunity to take even more freedom or the opportunity to make specialized choices in such a portal, but I also understand that not everyone can get everything they want, when it is a fixed solution (Project leader, Company A).*

According to Wilson (1995) and Huang & Wilkinson (2013), there is limited commitment between the parties in the starting process. The statement above supports this in that A4 did not want to commit significantly to the relationship by customizing the solution for Company A. However, the finding also indicates that Company A is understandable and can accept the constraints in the test project. This indicates that the relationship is still in a starting process, as the parties usually adapt to each other's needs in the developing process (Ford, 1995).

### **Episode 3: Creating New Activity Links Within and Outside the Rental Project**

As of today, the rental project has changed from a test project with volunteers to a test project with paying customers. Based on the successful trial so far, Company A wants to establish new circular initiatives with A4, both within the project and for other business areas: *"We also thought it would have been good to use them on for instance deposit bags and return clothes for repair, or other areas in our companies"* (Project leader, Company A).

According to Håkansson & Snehota (1995), as a relationship develops, the activity links change depending on the companies' ambitions for the partnership. The change in activity links will also affect resource ties by requiring new capabilities and resources to conduct new activities. The finding above shows that Company A had great ambitions for a long-term relationship with A4 by planning different activities across business areas. There is increased commitment and the parties plan activities and responsibilities together in the developing process (Ford, 1995). Thus, the finding indicates that the relationship has moved into the developing process.

### **Summary**

Company A considered several potential partners in the searching process but chose A4 due to an economical and environmental aspect, as well as the simplicity of implementing the solution. The findings indicate that Company A would utilize A4's capabilities and services for other parts of the organization, leading to new activity links and stronger resource ties through increased commitment between the parties.

#### **4.1.5 Establishing a New Strategic Partnership with Textile Manufacturing Partner A1**

Another partner in the trial project of park suits is an early-stage sustainable cleaner that develops a filter that allows textiles to be washed with cold water without chemicals, hereby referred to as A5. Company A wanted the rental project to be as sustainable as possible in



the whole value chain, creating the need for collaboration with A5 as the cleaner of the park suits.

### **Episode 1: First Meeting Between Company A and A5**

The first meeting point between Company A and A5 was at a sustainability event, where the CEO of A5 and the Sustainability Manager of Company A came into dialogue. This indicates that Company A was in a searching process at this stage of the relationship. After this, the Project leader at Company A took the lead and arranged a physical meeting:

*We wanted to figure out what A5 was doing, understand the technology and how it could be applied, and learn how they work. We were not sure if their technology would work on our products, and because they are still a startup, this needed to be cleared at the beginning (Project leader, Company A).*

Ford (1995) and Huang & Wilkinson (2013) states that social distance needs to be identified and reduced when developing a new relationship because the parties are not familiar with the way each other is working. Based on the finding above, the meeting between Company A and A5 may have helped reduce the social distance by gaining knowledge about each other's work methods and the unique technology. According to Huang & Wilkinson (2013), the experience and culture of the partners must be taken into account when building trust. This meeting may have increased the trust between the parties, as the parties got to know each other. Thus, the actor bonds also were strengthened after the physical meeting.

### **Episode 2: Test Activity with A5**

After the meeting, the relationship moved into the starting process by examining a trial project consisting of washing a few park suits. There was little commitment of resources because the purpose was to test if the cleaning method worked on the suits. After the test project, Company A experienced the need for additional activities related to the park suits:

*As a small business, A5 did not have the resources or capabilities to meet our additional needs for impregnation of the suits in a more sustainable manner. For them to do so, it would require them to invest in machines and knowledge (Project leader, Company A).*

According to Håkansson & Snehota (1995), if the activity links are coordinated well, the two companies have the opportunity to create unique performance together through cost reduction and improved effectiveness. Since A5 did not handle the additional activity link during the starting process, the opposite happened, making the relationship stagnated, and impaired the actor bonds. This resulted in the relationship developing into the termination process.

### **Episode 3: Returnment to Their Established Partnership**

After the initial trial project, the parties rapidly stopped communicating, leading the relationship into the termination process. Based on this, Company A chose to continue using their existing cleaning partner because they knew the quality was sufficient, and they had an established relationship already. However, Project leader at Company A stated both the advantages and disadvantages of working with large and small actors:

*The advantage of working with a small business is that they are interested, passionate about their projects, and would like to meet our needs. So it's a whole different way of thinking than big players who have their finished recipe for how they work. With the big actors, we are seen as a customer, rather than a partner working towards something together. (...) But at the same time, you just have to make things happen fast, and then you have to go for who you know or those you know works.*

This approach for exiting a relationship aligns with the exit strategy of indirect communication where the relationship will “fade away”, leading to an implicit understanding that the relationship has ended (Hirschman, 1970). Furthermore, Company A experienced that a change in a new activity link, impregnation of the park suits, would require new resources. A5, as a startup, was not able to perform in a productive way. Companies usually seek partners with matching resources such as knowledge and capabilities (Ford et al., 1995; Gadde, Huemer, & Håkansson, 2003). Thus, the lack of a good fit may be a reason why the relationship ended.

Furthermore, despite the fact that Company A wanted to take environmental aspects into consideration in their business model, their existing cleaning partner does not focus on sustainability as of today. Also, Project leader at Company A states that the partner is a large company that is difficult to collaborate with:

*We wish we could work faster on the project, but we do not always get the opportunity because we work with a fairly large player that is difficult to get in touch with. So I feel it puts a little bit of a halt to processes and momentum.*

At this stage, Company A went to the ongoing maintenance process with its existing partner. Company A chose to return to its existing partner due to its ability to handle several activities related to the cleaning, even though the partner was challenging to work with and did not consider the environmental aspect. The findings indicate that there is a lack of mutual commitment between the parties, making it difficult to utilize resources and better performance (Corsten & Kumar, 2005; Gadde, Heumer, & Håkansson, 2003).

## **Summary**

The relationship between Company A and A5 ended through an indirect communication strategy in the termination process because A5 could not handle additional activity links. The new activity was essential for Company A in order to release the service to the market. Thus, Company A returned to their existing partner that they knew delivered sufficient quality, but did not take environmental consideration into account.

### **4.1.6 Analysis of Changes in Strategic Partnerships of Company A**

The findings from the individual analyses show that Company A changed together with its existing partner but primarily established new partnerships when innovating towards a circular business model. The reason for establishing new partnerships was the need for new capabilities that Company A did not possess internally or through existing partners. Furthermore, the findings also reveal that branding was an important driver for the changes. Company A aimed to strengthen its brand position through its strategic partnerships in order to attract potential employees and other stakeholders.

In the searching process, Company A looked for new strategic partners through its network or at sustainability events. At the events they met new potential partners which were subsequently considered in the evaluation. According to Polansky (2010), the searching process normally includes several candidates to keep the options open for the focal firm. However, only in the case of A4 did Company A consider several potential partners, as many actors delivered similar solutions. In the other cases, Company A had limited alternatives as the new partners possessed novel and unique solutions that few others could offer. Furthermore, Batonda & Perry (2003) state that evaluation criteria are based on social and economic aspects. However, the strategic partnerships of Company A were evaluated on economic and environmental aspects: The partner needed to have common values for sustainability, and the partnership had to be profitable in the long-term.

According to Wilson (1995), there is limited commitment of resources between the parties in the starting process. A common finding that reduced the commitment in the starting process was the implementation of trial projects in new activity links. Both new and existing strategic partnerships carried out small test projects with Company A's end customers to reduce the risk of developing a solution that did not fit the customer's needs. Thus, the parties limited the commitment of both tangible and intangible resources in an early stage.

The findings also show that the strategic partnerships that were able to adapt and implement several new activity links succeeded in building long-term relationships. The adaptation and implementation of the new activity links induced stronger resource ties

through increased commitment and sharing of resources. According to Gadde, Heumer, & Håkansson (2003), resources that are combined into a unique and competitive combination lead to stronger resource ties. Conversely, the new strategic partnership with A5 failed to implement several activity links, resulting in termination using an indirect communication strategy (Hirschman, 1970). Thus Company A had to return to its previous partner.

## 4.2 Changes in Strategic Partnerships of Company B

Company B and its parent company have both a large environmental footprint and a clear strategic shift towards a more circular business model. However, according to the Sustainability Manager at Company B, “being such a large company, it can be hard to change directions”. Nonetheless, the company is undergoing substantial shifts in different parts of the value chain. The initiatives are both on a global level and individual to the subsidiaries. The parent company operates by setting goals at the headquarters in Sweden, where management from the subsidiaries gather to agree on the circular and sustainability goals. Then, it is up to the individual nations to reach the goals on a national level, and report back to the global HQ. The different subsidiaries collaborate with each other and with the parent company, but due to individual political and societal factors, they prioritize and achieve their sustainability and circular goals differently. Some of the initiatives Company B is undertaking to reach their goals will be analyzed in the following. The respondent interviewed is the Sustainability Manager, who is responsible for all strategic partnerships regarding sustainability and circularity.

### 4.2.1 Establishing and Developing a Strategic Partnership with Repair Partner B1

One of the relationships studied was with repair partner B1, a small Norwegian startup specializing in repairing used clothes. The partnership consists of B1 setting up repair stands in Company B’s shops where their customers can repair used clothes. Company B’s goal is to increase awareness about repairing: “(...) *our goal is to drive attitude change with younger target groups, where we make it more normal to repair*” (Sustainability Manager, Company B). As compensation for letting B1 use their stores, Company B takes a percentage of B1’s profits. The partnership started in late 2017 and was implemented in the first store in 2018. Since then, they have had several challenges and the partnership is currently in an uncertain state. The uncertainty is due to several factors but has been further intensified by the COVID-19 situation: “(...) *right now things are very uncertain. We will continue to offer the service, but if it's with them or without them, the current situation will show*” (Sustainability Manager, Company B).

### **Episode 1 – Moving to the Starting and Developing Process**

The relationship started with B1 “pitching” their service to Company B after contacting them directly. The Sustainability Manager at Company B stated they were looking for partners that could help them in different parts of the value chain, and after the initial pitch from B1, they seemed like a good candidate: *“It seemed like a good fit to our take care project, where we work with the consumer on durability, repairs and awareness among target groups”* (Sustainability Manager, Company B). After B1’s pitch, the two parties had a few more meetings before they initiated the partnership.

This indicates the partnership went from the searching process to the starting process, where they engage in contact to identify interpersonal dynamic and long-term compatibility (Aarikka-stenroos, 2008). According to Aaboen & Aarikka-Stenroos (2017), startups can be the one initiating contact by presenting their technology, which was the case with B1 and Company B. However, partners are assessed on experience (Ford, 1995; Huang & Wilkinson, 2013), but as Company B never had partnered with a repair company, there was no basis for comparison. Also, Company B did not have a structured searching process but moved on with B1 after their first pitch. With such a quick shift from the searching to the starting process, important alternative partners might have been left out (Ford, 1995).

According to the Sustainability Manager at Company B, there were several reasons to partner with B1: It was more flexible than doing it in-house, and they could easily switch the service on and off when needed. In addition, they could benefit from B1’s existing capabilities and investment into equipment. However, the Sustainability Manager at Company B points out that branding was the primary driver:

*Yes, to put it that way, those sitting on the money didn't want us to do it. But we did it from a brand perspective. I see a value communicatively, not only because it is a credible player, but because it is a Norwegian startup that tries to do something on its own. And as a company, one of our values is building up under local entrepreneurship.*

This shows that Company B was willing to forgo financial gain, in order to gain a communicative advantage, and achieve alignment on long-term compatibility. It also shows that Company B had identified a strong base for the new activity, which is important in this process according to Batonda & Perry (2003). In this episode, the parties tested the alignment of long-term goals and formed the first actor bonds, which formed the foundation for a new partnership.

### **Episode 2 - Aligning Ways of Communicating**

Although off to a good start with the initial alignment of long term goals, the partnership had some communication challenges in the beginning:

*Yes, they have been easy to communicate with. But this collaboration is characterized by being very important to them. There were a lot of emails and a lot of information back and forth, a kind of "over-sharing". I did not always understand what the case was because it was so much. So for my part, it was not entirely positive* (Sustainability Manager, Company B).

However, the challenges were quickly resolved when they aligned on ways of communicating: *"I had to tell them specifically what they had to measure and communicate. I needed them to start with concrete measurement and reporting of KPIs. And after that, it went more seamlessly."* (Sustainability Manager, Company B). At this time, they communicated via email and in-person meetings with B1's CEO and COO, and several employees from Company B.

According to Ford (1995), reducing distance is important in the early stages of a relationship. Moreover, face-to-face meetings lead to tangible and intangible benefits when the actors try to adapt (Mason & Leek, 2012). In this case, frequent, in-person meetings might have helped to reduce distances and strengthened the actor bonds. The parties already had low cultural and geographical distance as both were native Norwegians and located in Oslo. Additionally, the cultural distance was likely exceptionally low, as the Sustainability Manager had personal experience from and a favorable attitude towards startups. In line with the findings of Batonda & Perry (2003), the parties now increased commitment and further adapted to each other, as characteristic for the developing process.

The partnership had an additional positive side-effect early on, according to the Sustainability Manager of Company B:

*(...)we made a repair stand in our shop. Then we saw an effect we had not expected, people started to preventively repair their clothes. As they are already in the store, people fix problems, such as low pants, before it's broken, so it's really cool.*

As one of Company B's primary goals was to *"(...)drive an attitude change"*, this indicates the partnership was able to meet an important goal, which is important in the developing process (Batonda & Perry, 2003). In this episode, the parties got to know each other better, which according to Corsten & Kumar (2005), and Gadde, Heumer, and Håkansson (2003), increases the possibilities to utilize the resources and perform activities better.

### **Episode 3 - Challenges with B1's Business Model and Potential Exit**

Despite a good start and plans to scale up to larger stores, the Sustainability Manager of Company B explained that the partnership quickly faced other challenges:

*The challenge is that B1 is struggling, regardless of the cooperation with us. There are no economies of scale with that business model, and you can't scale it as easily. (...)we have really tried to make this cooperation work, it's much more economical for us to do it ourselves.*

Despite the challenges, the cooperation is still ongoing. This indicates a significant willingness to invest, and according to Batonda & Perry (2003), investments like these indicate a long-term perspective. As mentioned earlier, positive branding from working with a startup was an important part of working with B1. However, it is uncertain how much, or for how long they are willing to offset financial gain. This indicates that the lack of one of the mutual goals, i.e. financial gain is challenging the relationship.

Company B was at this stage also thinking of alternative ways to reach the goal: *"So they are struggling now, but we still have the cooperation. We can potentially save the service by having it in-house, in a way hire their tailors as employees, and not as a hired service"* (Sustainability Manager, Company B).

This indicates that Company B is still in the searching process in parallel to the partnership with B1. According to Ford (1995) and Huang & Wilkinson (2013), companies evaluate partners based on experience, uncertainty, and distance. For the first time, Company B now had experience from the partnership with B1 to compare against. The findings also indicate that Company B is considering a termination process with B1, characterized by actively analyzing the cost and benefit of staying or terminating the partnership (Ford, 1995). As the COVID-19 situation has further put pressure on the companies and their relationship, this might have critical consequences. At the time of writing this thesis, the fate of the partnership between B1 and Company B has not been decided.

## **Summary**

The partnership moved quickly to the starting process, and Company B did not have a structured searching process. The partnership was further developed to the starting process by the trial project. In the beginning, the parties had some misalignment in ways of communicating, but these were quickly resolved. After this, and through trial project, the parties lowered cultural, geographical, and social distance. Also, they were starting to increase commitment and build stronger activity links. Although Company B achieved many of the goals and expectations in the trial project, the partnership is currently failing to satisfy financial goals. As a result, Company B is actively looking for alternatives, where one option is to take the activity in-house.

## 4.2.2 Developing an Existing Strategic Partnership with Recycling Partner B2

Company B is working closely with a recycling company, hereby referred to as B2, where they collect and recycle used clothes from customers. In Company B's stores, customers can drop off their clothes in return for a coupon code applicable to new purchases. The partnership has been active for a few years. According to the Sustainability Manager at Company B, this service has been a challenge from a public relations standpoint: "(...) *some will say it's hypocritical and that we only do it to make them visit the store and stimulate them to buy more. But we just have to live with that*". After the clothes are collected, they are sent to Germany and recycled at B2's facilities. The partnership with B2 is on a corporate level, and the supply chain and logistics infrastructure is tightly interconnected with B2. In addition, many of Company B's sister companies have worked with B2 for a long time, which builds trust and stability to the partnership. The Sustainability Manager at Company B and B2 have never met in person and communicate via email.

### **Episode 1 – Challenges with the Relationship**

Sustainability Manager at Company B mentioned several challenges with the corporation, and in particular, B2's slow response to requests from journalists:

*All of a sudden we get something from the press, and then B2 sits on the core competency required to answer the questions, but we have to answer the journalists by 7 o'clock that night. And they're not that fast at responding (Sustainability Manager, Company B).*

When asked if the respondent could call B2 to get a response faster, the Sustainability Manager at Company B answered: "*No, our contact sits in the office and does not have the knowledge, those who know it are in technical teams. We have tried to improve our communication, but it hasn't worked out*". In addition, that long shipping distance is not preferable for the environmental aspect, according to the Sustainability Manager of Company B:

*It is a long way to ship things to Germany. From a sustainability perspective, you want to send things as short as possible, and this is also questioned. After all, all the material is not used, so you are potentially transporting garbage as well. Overall, there is still a positive result for the climate, but of course, you'd ideally want to avoid it.*

At this point, the relationship is in the ongoing maintenance process, where it is important to further adapt to each other's needs, according to Batonda & Perry (2003). According to



Ford (1995), uncertainty should be reduced in this state. However, the parties have not been able to adapt to each other's ways of communicating, and there is some cultural distance between them. Furthermore, the findings show that actor bonds are weak, given the respondents lack confidence in B2's key account manager. This might be a result of unfamiliarity, i.e. social distance, between the actors as they have never met in person. According to Ford (1995), in-person meetings can help reduce social distance, which is important to create strong actor bonds. Strong actor bonds are also hard to achieve, as it requires time and effort by both involved parties (Prior, 2005). The negative environmental impact of the long shipping distance implies a misalignment of the long term goal of being more environmentally friendly. According to Batonda & Perry (2003), it is important to ensure alignment of these goals, in order for the partnership to continue to function well.

## **Episode 2 – Seeking New Opportunities and Trial Projects**

Company B has been looking for new potential partners to help with the recycling activity, and has run trial projects in the past:

*What might have made things easier was if you could do it together with a local partner. So more redesign could come out of the store locally, without having to be transported far. We have actually done this in the past, where we have asked Norwegian designers to redesign and sew, for example, dress jackets. But we haven't quite figured out the model locally yet, it's just small drips. And the big changes are not the drips (Sustainability Manager, Company B).*

Moreover, getting a high enough volume of returned clothing is the main challenge:

*We did not know who else could receive, recycle, and ship back in the same quantity as B2. There are many other players in the industry sitting on the fence. And again there is the chicken-egg problem, one must not just wait until the volume comes. There are some startup companies that are popping up and we could potentially wait until systems were better, but the systems are waiting for the quantity (Sustainability Manager, Company B).*

These findings show that the relationship is in the ongoing maintenance process, in parallel with a searching process as Company B is actively looking for alternatives for B2. As one of Company B's values is cooperating with Norwegian startups, finding a startup to replace B2 might have aligned well around their long-term goal of gaining a more favorable public image. Although wanting to change, the findings reveal several aspects that indicate a strong partnership. Firstly, the parties have strong resource ties and activity links, with the close integration of B2 into Company B's value chain. In addition, technological distance is low as B1 is tightly integrated from a technological perspective. These factors are indicative of strong actor bonds (Ford, 1995; Håkansson & Snehota, 1995; Batonda & Perry, 2003).

Furthermore, B2 is successfully cooperating with Company B's sister companies, which gives trust to the partnership and further strengthens it. According to Dubini & Aldrich (1991), mutual trust and behavior lays the foundation for long-term rewards, as it reduces the risk for the involved parties. This episode indicates that the partnership will stay in the ongoing maintenance process, due to strong partnership and absence of viable substitutes.

### **Summary**

The partnership with B2 has very strong activity links and resource ties, with B2 being tightly integrated into Company B's supply chain and logistics. However, there seems to be some misalignment of long-term goals, considering the negative climate effect of the long shipping distance. Also, as well as Company B's desire to partner with local startups. While working with B2, Company B is also in a searching process, conducting small trial projects and looking for alternative partners to replace the activity with B2. The parties have some social, cultural, and geographical distance and fairly weak actor bonds.

### **4.2.3 Establishing and Ending a Strategic Partnership with Network Partner B3**

A partnership that both began and ended during the circular business model innovation process was the one with B3. B3 is a startup that helps companies increase knowledge, connect initiatives, and attract new players to the field of sustainability. In addition, B3 helps by empowering organizations with the relationships, information, and tools they need to create actionable change and excel at sustainable leadership (B3's website, the home page, 2020). Company B and B3 started a partnership in 2016 and worked together for a few years. B3 helped Company B by inviting them to industry events, arranging speaking engagements, and putting them in contact with relevant players.

#### **Episode 1 - Ending the Relationship**

When the Sustainability Manager was employed at Company B, an evaluation of all the different partnerships was done. From the evaluation, it was clear the cooperation with B3 did not help the company with what they needed:

*B3 was able to connect us to the sustainability network in Norway. But we didn't get that much value. Anything that helps business development wise is not that relevant to us. We do that globally, not locally per subsidiary, and we have experts in textiles, recycling, and access to everyone in the industry (Sustainability Manager, Company B).*

At this point, Company B was clear about terminating the partnership. The parties had good personal relationships and knew each other well. However, they were not able to

align long term goals, and the exit process was quick: *“They came in for a meeting and pitched again, and then it was mostly via email. They would like to have us, but we did not find any match. I made the decision, and it was a clean process”* (Sustainability Manager, Company B).

These findings show that Company B initiated the termination process with the direct voice strategy, as suggested by Hirschman (1970). Company B clearly stated its intent but were open to discussing alternatives. Also, in line with the theory by Ford (1995), the termination process continued after the discussion as the parties did not successfully negotiate a continuation of the partnership. Furthermore, the partnerships with B3 had weak resource ties and activity links, as Company B was not dependent on B3 to achieve the shared activity. According to Håkansson & Snehota (1995), the strength of the activity links, resource ties, and actor bonds will affect the performance of the companies and the relationship. And although the actor bonds were strong through their personal relationship, the weak resource ties, and activity links rendered the partnership inefficient.

### **Summary**

Company B and B3 had seemingly weak activity links and resource ties. They had collaborated on some projects, such as attending events and speaking engagements, but commitment was low and they did not collaborate on business-critical activities. Although they had strong and personal actor bonds, in addition to low distances, they were not able to find an alignment of long-term goals that would justify the cost of the partnership. As a result, Company B used the voice strategy to communicate and try to find new ways to continue the relationship. However, the relationship ended despite B3 wanting to continue.

#### **4.2.4 Analysis of Changes in Strategic Partnerships of Company B**

The analysis shows that Company B’s strategic partnerships changed in several ways when innovating towards a circular business model. Firstly, Company B sought to establish new partnerships that could help improve their public perception and brand; this was the primary driver for change. Company B is subject to a lot of negative press and public pressure to be more sustainable, and partnerships were identified as an opportunity to improve this. This was prominent in new activities but also found in the change of existing. Secondly, the findings reveal that Company B is willing to invest and forgo some short financial profit with the new partnerships. However, partnerships must prove financially profitable in the foreseeable future.

In the search for new partners, Company B looked for smaller companies and startups, as this would be beneficial for improving the brand, in addition to getting access to new technology and activities. The startups were often the one initiating contact by “pitching” their technology or solutions. According to Aaboen & Aarikka-Stenroos (2017), startups

can be the one initiating contact by presenting their technology to the buying company. The findings also show that Company B did not conduct a proper searching process, and according to Ford (1995), this indicates they might have missed out on other partners.

Company B's new activities with partners had a high degree of innovation, and as a result, they started as trial projects before commitment increased. According to Wilson (1995) and Huang and Wilkinson (2013), there is limited commitment and trust between the parties at this stage in the process. In particular, the test projects were important in partnership with B1 and B3, where both had little experience with the new activity links. And even when searching for alternatives to B2, they were looking for new, novel replacements.

The majority of the strategic partnerships were characterized by low geographical distance. In addition, the parties had frequent in-person meetings, which are found to lead to tangible and intangible benefits (Mason and Leek, 2012). In addition, personal visits are important in this state for the parties to get to know each other better (Styles & Hersch, 2005). However, the partnership with B2 did not have these meetings and had high cultural and geographical distance, as well as weak actor bonds. In the partnership with B2 and B3, misalignment of long term goals that challenged the relationship.

## 4.3 Changes in Strategic Partnerships of Company C

As mentioned in section 3.3.2, Company C has gone through several shifts towards a circular business model in the last couple of years, to become more sustainable with its fashion brand. In the first step of the innovation process, where the company is now, is related to manufacturing and forward logistics. This includes using certified recycled materials and chemicals in the production process, reducing disposable plastic packaging, and avoiding shipment of products by air. In order to succeed with this, Company C has been dependent on existing and new strategic partners in its value chain. However, during the process, Company C has implemented an initiative that was not part of their original plan. The following analysis will describe how these strategic partnerships have changed during the circular business model innovation process.

### 4.3.1 Developing an Existing Strategic Partnership with Clothing Manufacturing Partner C1

C1 is a Norwegian clothing production company that is owned by a Chinese-born family. They specialize in producing fashion clothes for Norwegian customers at their proprietary

factory in China, and thus also have an office in Norway. The collaboration between C1 and Company C started approximately three years ago and has continued to develop when Company C innovated towards a circular business model.

### **Episode 1: Developing a Personal and Long-lasting Relationship**

Over the past three years, C1 had produced several collections for the fashion brand of Company C. According to the CEO of Company C, these collections were considered successful as they were of high quality and manufactured at a low price, which was a result of the two parties have developed efficient solutions together over time:

*By meeting each other frequently face-to-face, we were able to know each other on a more personal level. Thus, we got a greater understanding of each other's needs and ambitions, which made it possible for us to create innovative solutions related to the manufacturing processes that were cost and time effective (CEO of Company C).*

Actors that have a great understanding of each other and are mutually committed to the relationship have stronger bonds (Håkansson & Snehota, 1995). The findings above imply that the parties had developed strong actor bonds, as the parties had got to know each other well through regular physical meetings. Personal visits are found to be important when the parties get to know each other (Styles & Hersch, 2005), since it reduces the geographical distance in the relationship (Ford, 1995). Moreover, strong actor bonds have a high influence on competitive outcomes (Prior, 2005). Such positive effects were highlighted in the response by the CEO of Company C, stating that mutual understanding led to innovative solutions. Additionally, good utilization of resources is a hallmark of strong resource ties (Gadde, Heumer, & Håkansson, 2003). Thus, the findings above imply that regular face-to-face meetings led to strong actor bonds and resource ties in the relationship, which resulted in innovative solutions.

At this point, Company C and C1 had not focused on environmental aspects other than what was required by Norwegian and Chinese law. However, the parties were working on securing animal welfare related to the textiles and chemicals that were used in the production. This was important to Company C, as their Scandinavian customers demanded animal cruelty-free products. The CEO of Company C explains that C1 also sees this as important:

*I think that C1 shares the same perception of the Scandinavian clothing industry as us, as they have employees in Norway that have long experience with this market. Many Asian manufacturers tend to choose price over animal welfare (CEO of Company C).*

According to Ford (1995), it is normal that sellers establish offices in the buying company's country to reduce the geographical distance in the relationship. Reduced geographical distance can also lead to reduced cultural distance, as the parties get insight into each other's national characteristics. In this case, the local presence of C1 led to a more mutual perception of the needs of the Scandinavian customers, which strengthened their bonds. Furthermore, the findings imply that the relationship was in the ongoing maintenance process in this episode, as high commitment to resources and degree of mutual understanding are characteristics of this state (Batonda & Perry, 2003). The strong actor bonds and resources that the parties developed in this state built a foundation for the relationship, as will be explained in the following episodes.

### **Episode 2: Company C Starts Innovating Towards a Circular Business Model**

When Company C decided to implement circular elements in the existing manufacturing activities, e.g. replace textiles made of virgin resources with recycled textiles, C1 was immediately considered as a potential partner due to their good relationship:

*Even though we had not collaborated on circular activities before, I knew from previous conversations that C1 had experience with such activities with other customers. Because of this, and due to our earlier success of working together, I preferred going forward with C1 rather than finding a new partner. However, as these activities require a new way for us to work together, I decided to run a trial project in order to find out if we had the same goals. This made the relationship start somewhat over again (CEO of Company C).*

The statement above implies that the relationship went through a re-activation, which can be a result of new business activities (Batonda & Perry, 2003). This was because the relationship faced major changes in its activity links, as the current unsustainable manufacturing activities had to be done in another way. Initially, the CEO of Company C did an evaluation of C1 based on previous experience in their relationship. Previous experience is found to be one of the most common factors when evaluating potential suppliers in the searching process (Huang & Wilkinson, 2013). As the CEO of Company C had a good relationship with their strategic partner from before, they decided immediately to initiate a trial project with C1 where tests of mutual goals were conducted. In the starting process, tests of mutual goals and capabilities are in focus (Aarikka-Stenroos, 2008). Next, in the searching and starting process, there is usually high uncertainty between the parties (Ford, 1995). However, in this relationship, there was less uncertainty between the parties, e.g. related to culture, as they knew each other well. This indicates that the parties skipped development activities that new relationships go through, as the relationship was reactivated instead of totally new (Polonsky, 2010). This also happened during the trial project in the next episode.

### **Episode 3: Company C and C1 Started to Manufacture Sustainable Fashion Clothes**

During the trial project in the starting process, which involved the development of samples made of recycled materials, the parties trusted each other's ability to perform their best. Moreover, C1 managed to meet the requirements of Company C, and the two parties identified a shared goal; they both aimed to create high-quality sustainable products at a low price. Thus, the parties decided to start manufacturing sustainable fashion clothes together. Their additional collaboration was successful, and the parties continued to develop creative and effective solutions together. As a result, Company C sold more clothes to its Scandinavian customer and increased its revenue.

According to Huang & Wilkinson (2013), there is usually a lack of trust in the starting process. As the parties had strong actor bonds, they already trusted each other and did not have to focus as much on this as new partnerships (Polonsky, 2010). Moreover, the parties continued to utilize their resources to create and perform effective sustainable manufacturing activities. This shows that they were both willing to adapt. High levels of trust are found to have a strong influence on competitive outcomes and adaptable behavior (Prior, 2005; Brennan & Turnbull, 1999). Thus, these findings display the importance of the high trust between the parties, as it laid the foundation for the mutual adaptation when the circular activities were implemented.

#### **Summary**

The analysis highlights the importance of the strong actor bonds and resource ties that were built early on in the relationship, e.g. through face-to-face meetings, when Company C innovated towards a circular business model. As a result of the parties knowing each other well, these parties were willing to adapt and able to implement circular initiatives in their existing activity links through the utilization of their resources.

### **4.3.2 Ending an Existing Strategic Partnership with Clothing Manufacturing Partner C2**

The second clothing producer, further referred to as C2, is a Chinese clothing manufacturer with production facilities and offices in China. Company C had produced different fashion products with C2 for the last five years, but experienced several challenges with the strategic partnership when innovating towards a circular business model.

#### **Episode 1: Previous Projects**

The collaboration with C2 had involved manufacturing several high-quality collections to a reasonable price. Therefore, Company C relied on C2's competence and capabilities to execute these types of projects. However, the two companies did not manage to create

even better solutions together over time, and thus did not provide something unique to the market:

*We only managed to make small improvements in each collection together, and there was no focus on innovation in our relationship. I think it was because we did not know and understand each other well, due to lack of physical meetings as it was costly to travel to China. We had employees over there, but that did not help as it is our Norwegian employees that are in charge of the projects. Thus, we did not have a natural arena to talk about our needs and goals (CEO of Company C).*

Partners that do not know each other well are less able to utilize their resources to perform activities (Corsten & Kumas, 2005). This can also be an indication of weak actor bonds (Håkansson & Snehota, 1995). This is displayed in the findings above, where the CEO of Company C points out the lack of mutual understanding as a factor that has hindered innovation in the relationship. Moreover, Company C found it hard to get to know C2 as the employees involved in the project rarely met in person. Research states that developing actor bonds require an investment of time by both parties, e.g. through personal visits (Huemer, 2014; Styles & Hersch, 2005). In this case, Company C's employees in China did not affect the relationship, as they were not directly involved. According to Edvardsson et al. (2008), the key people are of most importance in relationship development. Thus, the findings imply that none of the parties invested in developing strong actor bonds, which resulted in less competitive solutions and other problems that are presented further.

## **Episode 2: Implementing the Circular Strategy**

When Company C decided to start implementing its circular business model, the uncertainty between the partners became an issue. The CEO of Company C did not know if C2 had the capabilities and experience needed for the new circular manufacturing activities. However, as they have created high-quality clothes in the past, the CEO of Company C decided to run a trial project before potentially searching for a new strategic partner. During the trial project, C2 was asked to develop samples of clothes made out of recycled materials and non-harmful chemicals. C2 said they were able to do it, but did not succeed with this:

*C2 did not have any comments or questions about the requirements. Therefore, I assumed that they had knowledge about this and introduced them immediately to the tests we had prepared. However, after two weeks they sent us some samples that were made from the same non-sustainable chemicals as before. When I asked them why they did not try to meet our requirements, a representative from the company said that they felt that this was good enough and that it was too expensive with other chemicals (CEO of Company C).*



The findings indicate that the current activity link between Company C and C1 had to be restructured, due to the circular requirements in the manufacturing process. Before committing to the new activities with this strategic partner, Company C evaluated C2 on previous experience. An evaluation based on experience is usually in the searching process (Huang & Wilkinson, 2013). In this state, there was high uncertainty between the parties regarding social distance, which is more likely when the parties have weak actor bonds due to lack of knowledge of one another (Ford, 1995). Company C had some positive experience of manufacturing high-quality clothes with this strategic partner and therefore asked C2 to participate on a trial project. However, Company C did not know that C2 was reluctant to perform such activities before starting the trial. This highlights a challenge with their high degree of uncertainty related to the starting process, as parties that do not know each other struggle to perceive each other well and disclose mutual goals (Corsten & Kumar, 2005; Aarikka-Stenroos, 2008). Company C might have discovered these differences earlier if they had used more time in the searching process to thoroughly evaluate C2, or focused on getting to know each other better at an earlier stage of the relationship. These problems emerged further after the trial project in the next episode.

### **Episode 3: Terminating the Relationship with C2**

After receiving the samples, the CEO of Company C found it hard to trust C2. *"I told them that our partnership could not continue if they were not able to make samples that met the requirements within four weeks"* (CEO of Company C). Some weeks after, C2 contacted Company C and told them that they could not deliver what was demanded. As a result, Company C ended the partnership with C2, as they did not want to continue with their previous non-sustainable activities. The parties ended the contact abruptly, but without conflict.

According to Brennan & Turnbull (1999) and Huang & Wilkinson (2013), trust is found to lead to mutual adaptive behavior and be crucial for the willingness to take risks related to resource commitments. This case displays how Company C's lack of trust towards C2 decreased their willingness to invest in the relationship and difficulties to adapt. Huang and Wilkinson (2013) state that the companies' experience is important when building trust. Hence, Company C's negative experience with C2 in the previous episode seemed to have led to little trust in the partner. Moreover, the CEO of Company C gave C2 an opportunity to change after the trial. A direct form of communication to express the message about a possible exit is, according to Hirschman (1970), named the voice strategy. However, neither Company C or C2 did put much effort into adapting to each other, probably due to the lack of trust and weak actor bonds.

### **Summary**

The strategic relationship between Company C and C2 was affected by high geographical and social distance, which led to weak actor bonds and resource ties. Hence, the two

companies were not able to understand each other's needs nor adapt to each other when Company C required a shift in their existing non-sustainable activity links. As a result, the trial project failed and the relationship was terminated shortly after.

### 4.3.3 Establishing a New Strategic Partnership with Clothing Manufacturing Partner C3

C3 is a Norwegian clothing manufacturer that specializes in making high-quality and sustainable clothes for the Scandinavian market. The production facility is located in China, but the company also holds an office in Norway. The relationship between Company C and C3 is relatively new, and the parties are still running small test projects together.

#### **Episode 1: Company C Searches for a New Partner**

Due to the ended relationship with C2, Company C needed a new clothing producer that could manufacture sustainable products. Company C started to make a list of evaluation criteria, which involved different requirements such as certificates, selection and price of sustainable fabrics, and previous experience with sustainable production. Based on these criteria, Company C started to search for potential suppliers through its network in Norway and China:

*We found it hard to find a clothing manufacturer that passed all our evaluation criteria, and the majority of the candidates did not have the experience with sustainable production. However, after some weeks, I was contacted by an acquaintance that knew about a Norwegian clothing manufacturer (C3) with production facilities in China. According to the acquaintance, C3 had mainly produced sustainable clothes for the Scandinavian market in the past, which we saw as positive (CEO of Company C).*

The searching process starts when a buyer begins to recognize potential sellers for a relationship (Edvardsson, Holmlund, & Strandvik, 2008). The findings imply that the searching process began after the strategic partnerships with C2 ended, i.e. when Company C needed to find a new manufacturer as a replacement. In this state, companies evaluate their fit with potential partners based on different criteria (Styles & Hersch, 2005), but do not commit to potential partners to keep their option open (Polonsky, 2010). In this case, Company C had made a list of different evaluation criteria, e.g. experience with sustainability. This specific evaluation criteria might have been included due to Company C's previous relationship with C2, where Company C did not find out until the end of the relationship that C2 was not able to deliver sustainable products. Additionally, the price was induced as a criterion, which implies that they also considered the economic potential. Moreover, the company struggled to find a potential partner that matched the criteria in

the market themselves. However, an acquaintance reached out and presented Company C to C3, its future partner, which highlights the importance of using the network in the searching process.

### **Episode 2: Establishing Contact and Starting a Trial Project**

Quickly afterward, the CEO of Company C initiated contact with the CEO of C3 and invited him to meet face-to-face and discuss the possibilities for cooperating. As the conversation went well and they seemed to have similar goals, the parties decided to start a small trial project together. The CEO of Company C describes the trial project further:

*We gathered our employees that work with product development to create some samples. This made us able to find out that our resources complemented each other and that we actually aimed towards the same goals, which was developing sustainable clothes to a good price. At this point, we did not make a binding agreement (CEO of Company C).*

The initial contact established an actor bond, and the trial project moved the relationship to the starting process, as described by Aarikka-Stenroos (2008). The findings above imply that mutual goals facilitated this development. The relationship involves little trust and commitment to resources at this point, as suggested by Wilson (1995). This implies that the resource ties and activity links still were weak in this state. On the other hand, face-to-face meetings led to benefits over time (Mason & Leek, 2012). By meeting physically, the parties would easier get to know each other better and thus, increase the chances of creating opportunities in the future. However, developing resource ties require investments from both parties (Håkansson & Snehota, 1995), but that did not hinder Company C and C3 when moving forward in the next episode.

### **Episode 3: Planning the First Sustainable Collection**

In the upcoming months, Company C was planning to move forward with the relationship by engaging C3 in the production of a new sustainable collection. The parties have met several times in order to get to know each other and discuss how they could produce clothes in an effective way. At this time, both parties seemed to be flexible and willing to adapt and invest in creating better solutions. Moreover, the CEO of Company C explains that she had a good impression of C3, but that “*they have a long way to go before they can trust each other and create opportunities together*” (CEO of Company C).

According to Prior (2005), high levels of trust and commitment contribute to reducing opportunistic behavior and thus have a great influence on competitive outcomes. The statement shows that the CEO of Company C is aware of the importance of trust in the relationship in order to create opportunities. This awareness can be the reason why the CEO focused on investing time in getting to know C3 better, e.g. by prioritizing face-to-

face meetings. According to Brennan & Turnbull (1999), trust has led to adaptive behavior. This explains why the parties experienced some level of flexibility and adaptability early on in their relationship.

### **Summary**

The findings indicate that Company C's strategic partnership with C3 was established as a result of the terminated partnership with C2. The parties found each other as a coincidence through their network, and Company C evaluated the potential based on price and previous experience. Later, the parties got to know each other better through physical contact and an initial trial project. Furthermore, this contributes to building trust, which builds a foundation for the future.

### **4.3.4 Ending an Existing Strategic Partnership with Logistics Partner C4**

C4 is one of the leading international transportation and logistics providers with local offices all over the world, including a few in Norway. Company C had outsourced all international transportation to C4 the last ten years, which mainly involved carrying goods from Company C's factory in China to the warehouse in Norway.

#### **Episode 1: Personal Relationship with a Customer Account Manager**

Although C4 was a large company with formal procedures and routines, the COO of Company C described their relationship as personal, and effective in finding solutions together. This was because C4 had a dedicated account manager who listened to Company C's needs, and even delivered more than what was expected. For instance, the account manager enabled customizations when it came to transportation, depending on Company C's needs. Company C had little communication with other employees in C4 unless the account manager was sick or there were issues related to financial aspects. The account manager was a Norwegian employee that was located at one of C4's Norwegian offices. Due to the short geographical distance, the parties met in person several times a year in addition to regular conversations over phone and email.

Actor bonds become stronger when the parties are mutually interested and committed to the relationship (Håkansson & Snehota, 1995). In this case, both Company C and C4 invested time and effort in the relationship, hence building strong actor bonds. Short geographical distance might have made it easier for the parties to meet regularly, as suggested by Ford (1995) Moreover, strong and personal relationships will lead to mutual problem solving and even informal adaptations (Ford, 1995). The findings show that the parties were adaptable towards each other by finding better solutions despite the formal routines of C4. It also implies that there were high levels of trust between the parties, as

adaptive behavior is more likely when the parties trust each other (Brennan & Turnbull, 1999). However, the relationship between Company C and C4 seemed to be developed mainly between the two individuals in these companies, the COO and the account manager. Thus, it is hard to separate this personal relationship from the business relation. A personal relationship can be more vulnerable if individuals involved are replaced (Ford, 1995), which is exemplified in the following episode.

### **Episode 2: Company C is Assigned a New Account Manager from C4**

Approximately one year ago, the account manager from C4 left the company, and Company C was assigned a new account manager. The new manager was more formal than the previous, there was little collaboration in finding effective shipment solutions together and fewer follow-ups of the shipments. As a result, two out of three shipments were delayed.

*Our new contact person was much more formal and had little time for us. For example, he preferred conversations in the form of email and phone instead of face-to-face meetings, and listened less to our needs and referred more to the formal routines he had to follow. It felt like our relationship with C4 started from scratch (COO of Company C).*

The findings above highlight the emergence of several challenges when the account manager was replaced. For instance, the new account manager devoted little time to the relationship and followed up the shipments to a less degree. According to Costen & Kumar (2005), the transmission of information is important to ensure effective collaboration. This could explain why the shipments were delayed. Moreover, there was less mutual understanding and adaptation compared to the previous episode. Huemer (2014) states that strong actor bonds require time and effort by both parties to develop. The new account manager invested less time in the relationship, and thus the actor bonds between Company C and C4 became weaker. It can also be harder to utilize resources when there is less focus on building strong actor bonds (Prior, 2005). Hence, the weaker actor bonds led to poorer utilization of the resources in the relationship. These challenges were found to affect the next episode in the relationship.

### **Episode 3: Introduction of the Circular Business Model**

The weaker actor bonds and resource ties influenced the decision to implement circular initiatives in the current shipping activities. In this process, Company C aimed to reduce greenhouse gas emissions from its shipments from China, which was not something C4 offered with its existing solution. Thus, Company C had to find a new solution together with C4 to continue the collaboration. The COO of Company C was uncertain whether to include C4 in this transformation or not, due to the previous bad experience with the new account manager. However, as few logistics companies offered these solutions, the COO of Company C decided to inquire C4 with this: *"I invited the account manager of C4 to a*

*physical meeting, but it was held over the phone due to the account manager's busy schedule"* (COO of Company C). The account manager of C4 replied that these demands would be challenging for C4 to meet as the company offered limited flexibility and customizations for small customers. However, the COO of Company C had at the same time initiated contact with logistics provider C5 that was smaller in size and had focused on sustainability, which is described in the following subchapter. As Company C now had another choice that was more sustainable, the company decided to exclude C4 for the upcoming shipment but maybe consider them if it introduced sustainable solutions in the future.

When Company C had to restructure their current non-sustainable shipping activities, they decided not to continue the collaboration with C4. According to Huang & Wilkinson (2013), companies that trust each other are willing to take more risk related to resources. There was a low degree of trust between the parties, which also influenced the parties' willingness to adapt, as suggested by Brennan & Turnbull (1999). Moreover, the choice of exit strategy is influenced by factors such as the strength of bonds built by the parties over time (Hirschman, 1975). Company C seemed to have used a more direct form for communication in the termination process due to the weak actors bond. As a result, the activity links between Company C and C4 became inactive, which means that the relationship developed to the dormant state (Polonsky, 2010).

### **Summary**

The actor bonds and resource ties between Company C and its strategic partner C4 were weakened due to a replacement of C4's account manager, which Company A had a strong, personal relationship with. As a result of weakened actor bonds, due to less mutual investment in the relationship, Company C found it more challenging to collaborate with C4. C4 was less willing to adapt, which made the relationship go into an inactive state.

### **4.3.5 Establishing a New Strategic Partnership with Logistics Partner C5**

C5 is a medium-sized Norwegian transportation and logistics company that provides shipping solutions all over the world. Their headquarters are located in the eastern part of Norway, in addition to several offices in Asia. C5 and Company C got in touch one year ago.

#### **Episode 1: C5 Contacting Company C**

At the same time as Company C was discussing the new circular strategy with C4, the COO of Company C got a message from the CEO of C5 at LinkedIn. *"He wrote that he had heard about our company through a common acquaintance and that he wanted to meet us in*

*order to present their new sustainable return system"* (COO, Company C). At that time, Company C was not searching for a new logistics provider. However, they had thought of doing it as C4 was not able to adapt to their needs. Thus, the COO of Company C accepted the invitation by C5.

The searching process starts when a buying company then starts to recognize sellers for potential strategic partnerships (Edvardsson, Holmlund, & Strandvik, 2008). Company C's negative experience with C4 triggered a searching process. As stated by Ford (1995), partners are more likely to be considered if there are problems with the existing one. The initial contact was the start of a new strategic relationship, as an actor bond was established between the parties (Håkansson & Snehota, 1995). However, the searching process normally involves several candidates, and there is usually no contact between the parties (Batonda & Perry, 2003). This implies that Company C did not go through a structured searching process, probably because they randomly got in touch with C5 and had no other alternatives to choose from. Shortly after, the strategic relationship developed to the starting process, which will be described further.

## **Episode 2: Evaluating a New Logistics Partner**

From the beginning of their relationship, Company C and C5 met regularly face-to-face. They learned quickly that they shared similar sustainability goals regarding shipping methods. In addition to discussing improvements of Company C's existing shipping activities, the CEO of C5 introduced a novel solution for Company C: A reverse logistics system where end customers could send returns directly to other customers that wanted the same piece, instead of sending it back to the warehouse. This would substantially reduce transportation emissions, as well as simplify Company C's logistics:

*I directly understood that this was a partner that was more flexible and willing to listen to our needs. The COO (of C5) actually said that they aimed to be the best logistics provider for small- and medium companies, both regarding price and solutions. I also liked the innovative solution that he presented, as we had no knowledge about such systems related to the reverse value chain (COO, Company C).*

The meeting involved an investigation of potential mutual goals and long-term capabilities, and there was still little commitment between the parties. These findings imply that the relationship was in the starting process, as these are characteristics of the starting process (Aarikka-Stenroos, 2008). Moreover, Styles & Hersch (2005) state that new partners evaluate how they fit together. This was displayed in this case, as they found out that they shared the same ambitions regarding sustainability. Company C perceived C5 as more flexible compared to C4 and thus, the process was affected by previous experience, as suggested by Huang & Wilkinson (2013). In addition to being a potential new logistics

provider for their current shipping activities, Company C found that C5 could provide an additional innovative circular logistics system. According to Aaboen & Aarikka-Stenroos (2017), the supplier, e.g. a startup, can be the one presenting their technology to the buying company. Hence, C5 could cover both an existing activity link, as well as create a new one. The flexibility and high engagement built a foundation for the relationship.

### **Episode 3: Company C Initiates a Trial Project**

When Company C had to transport a new collection to their Norwegian warehouse, the COO saw this as an opportunity to run a trial project with C5 as they had given a good impression:

*In this way, we could find out if C5 was easy to cooperate with and whether they could deliver according to their promises about price and flexibility. If the trial shipment succeeded, we would be able to go forward with the reverse logistics system as well (COO, Company C).*

During the trial shipment, Company C found C5 easy to work with, e.g. throughout their flexibility. When the factory announced that the collection was delayed a week just before the scheduled shipment date, C5 rescheduled the shipment without any problems. The collection arrived as planned, and the parties are currently planning to make the shipments even more sustainable and to set up the reverse logistics system.

In this case, Company C initiated a trial project in order to test the capabilities of the partner. One of the parties is usually the initiator for a trial project, with the aim of creating a mutual economic advantage (Larson, 1992). Company C aimed to create long-term mutual advantage if the trial project succeeded, which indicates that they also were willing to invest in the relationship. As displayed in the findings above, the trial project succeeded and the parties are planning to increase their commitment regarding resources. Companies in relationships with higher levels of trust will take more risk related to the commitments of resources (Huang & Wilkinson, 2013). This implies that the trial project built up some trust between the parties, which is a good starting point for the continuation of their relationship. However, building trust requires time and effort from both parties (Huemer, 2014), and must be considered in the future.

### **Summary**

During the circular business model innovation process, Company C established a new strategic partnership with C5 as the relationship with C4 terminated. Company C experienced that C5 was more flexible and adaptable, as they were smaller and had fewer formal routines. Through a trial project, the parties found out that they had mutual goals and worked well together. This relationship also resulted in a new activity link for Company C, as C5 could provide a new and innovative system for reverse logistics.



#### 4.3.6 Analysis of Changes in Strategic Partnerships of Company C

The analysis of the strategic partnerships of Company C shows that the fashion company both evolved and terminated its existing strategic partnerships, as well as established new ones when innovating towards a circular business model. This was because a need for new capabilities emerged, as its current non-sustainable activities had to be performed differently and novel circular activities had to be implemented. According to Polonsky (2010), relationships can be re-activated or terminated when new business opportunities emerge, which is displayed in this case. For instance, Company C terminated two of the strategic partnerships due to the party's inability to adapt to each other. As a result of this, Company C had to establish new ones.

In the searching process, Company C evaluated both new and existing strategic partners based on previous experience, and economic and environmental aspects. According to Styles & Hersch (2005), and evaluation with such criteria can reveal whether the parties fit or not. For instance, as Company C had a negative experience with large and formal companies, they looked positive that the new partners were small and seemed more flexible. Moreover, the new strategic partners were found differently, but both as a coincidence. Hence, this process was less structured and involved few partners. The searching process normally involves several candidates, to keep the options open for the focal company (Polansky, 2010). The finding shows that Company C had few alternatives to choose from, hence going forwards with the first they had contact with.

According to Wilson (1995), there is limited commitment between the parties in the starting process. In this case, both new and existing strategic partners went through a trial project before Company C decided to commit to them. The goal was to align mutual goals and capabilities, and thus reduce the risk of investing in wrong strategic partnerships.

The findings highlight the importance of building strong actors bonds, as the partners with strong actor bonds were more willing to adapt and invest in resources. This was displayed in all states of the relationships with strong actor bonds. According to Prior (2005) and Gadde, Heumer, & Håkansson (2003), companies that know each other well will build trust, and trust is important for performing activities and utilizing resources better. The trust was especially increased through face-to-face meetings. Conversely, all strategic partners that did not meet regularly were characterized by weaker actor bonds, and were also terminated during the process. Thus, the main difference between these partnerships was the strength of actors bonds and resource ties, as the ones with strong and personal bonds and ties were able to adapt and find better solutions together.

## 4.4 Changes in Strategic Partnerships of Company D

Since the beginning, Company D had sustainability as a core part of their strategy. The respondent, the CEO of Company D, said the following about an important moment early in the company's history: *"(...)we realized that we contributed more destructively than positively to the environment. Then it was either we stop and quit here, or we turn around and find business models that provide a good environmental benefit and make a difference"*. Since then, Company D has started several circular initiatives, such as introducing an environmental tax on their own payroll to plant trees. However, the CEO of Company D stated the industry's real enemy is consumption:

*What we're most concerned about is daring to admit that consumption is the real enemy, and that's where I see the industry has the most improvement. Just to sit down and dare to say consumption is the enemy, the more we sell the worse it is.*

They are also offering repairs, only use cardboard packaging (i.e. no plastic), and have a very environmentally-conscious customer base. Company D has received critical acclaim from National TV and media for many of its sustainability-oriented initiatives. The following subchapters present an analysis of three relationships that have started due to the company's continuous transformation towards a circular business model.

### 4.4.1 Establishing a New Strategic Partnership with Clothing Manufacturer D1

In late 2018, the CEO of Company D heard about a new initiative at Tøyen in Oslo where female unemployed immigrants from Somalia gathered to sew and learn Norwegian, hereby referred to as D1. The CEO of Company D got in touch to learn more and see if they could cooperate to produce new clothes together: *"(...)I heard about the project, a little bit by chance, and talked to them about whether it might be a win-win situation"* (CEO, Company D). The idea was to create simple products, and have D1 sew the products using leftover material from Company D's main factory in Latvia. This was the start of a new partnership between Company D and D1.

#### **Episode 1 - Starting Up the Activity**

Initially, the CEO of Company D needed to know if D1 could produce clothes with sufficient quality and that it could be an economically profitable project. In order to do so, the parties started a trial project, which required some commitment in terms of time from Company D:

*First, we found out that they could deliver sufficient quality fast enough for it to be economically feasible. That was a task that took a lot of time with our designer. Then we tested some simple products on the market and saw that we could scale from there (CEO, Company D).*

In this period, the parties frequently met in person, primarily at their D1's facilities in Tøyen. According to the CEO of Company D, they communicated quite well:

*There are some cultural differences, which are primarily fun but can be challenging. We had a lot of in-person meetings, and then it was mainly telephone. But of course, it is very important to have them nearby, which makes it much easier to work with them. There is a lot of communication that gets lost between the lines, even on a phone call.*

According to Ford (1995), several aspects of distance should be reduced when starting a relationship. The findings indicate that the low geographical distance and frequent in-person meetings helped reduce social and cultural distance and subsequently strengthen the actor bonds. According to Styles & Hersch (2005), personal visits are important in this process for the parties to get to know each other better. Furthermore, as the parties learn each other to know better, the trust between them will increase (Huang & Wilkinson, 2013), which again has been found to increase the chances of mutual advantages (Brennan & Turnbull, 1999). However, according to the CEO, Company D did not look for alternatives to D1, and consequently did not conduct a structured searching process. According to Ford (2001), this indicates that they might have missed out on other viable alternatives. In this episode, the parties created their first actor bonds and activity links through a trial project. Frequent in-person meetings helped reduce distance and increase trust which built the foundation for the new partnership.

## **Episode 2 - Quality Assurance and Reducing Cultural Distance**

According to the CEO of Company D, there were some challenges in the beginning:

*A bit of the challenge was that they were not professional. But we taught them to, if not completely, be at least professional enough. They did not have the same relationship with quality assurance, warranties, and the understanding that an actual customer would pay for this with their precious money.*

The distance was reduced fairly easily: *"It was pretty okay. We just said that we didn't accept the products and that they had to do it again"* (CEO, Company D). These findings show that the parties further reduced cultural distance, e.g. different methods of working and communication, through in-person meetings which further strengthened the partnership. Personal visits have been found to be important for the parties to get to know each other better (Styles & Hersch, 2005). Also, according to Corsten & Kumar (2005) and Gadde, Heumer, & Håkansson (2003), when parties get to know each other, they increase

the possibilities to utilize resources and perform activities better. Furthermore, it is important to reduce distances, such as cultural distance (Ford, 1995). As this cooperation was something that neither of the parties had done before, it might have required extra commitment than first anticipated. In this episode, the parties further identified interpersonal dynamics and long-term compatibility, which according to Aarikka-Stenroos (2008) is important in the starting process. This episode also contributed to further adapting to each other and lowering social and cultural distance.

### **Episode 3 - Resolving Expectations of Full-time Employment and Moving Forward**

After strengthening the partnership in the previous episode, another challenge arose, when the respondent learned that D1 had expectations of being employed full time at Company D:

*(..) they probably expected us to hire them full time. And even though things have been going well, they expected it to go even better and that we had so much work for them that we could hire them. But things haven't gone quite that way, it has taken quite a while, as things take (CEO, Company D).*

According to the CEO, their misalignment was quickly resolved through a few meetings: *"Now it is communicated quite clearly, so now it really is that they hope they get enough work. It's a good atmosphere, just always important to communicate clearly"* (CEO, Company D).

This challenge arose as a result of cultural distance and some misalignment of goals, where one of the D1's goals was to be hired full time at Company D. At this point, the partnership had moved to the developing process, where they, in line with theory by Ford (1980), continued to increase commitment and try to create value based on each other's strengths. According to Aarikka-Stenroos & Jaakkola (2012), dialogue is needed in this process, as the parties might still lack a mutual understanding of goals. However, high trust and low distance enabled good dialogue and a quick resolution. According to Brennan & Turnbull (1999), trust has been found to increase the likelihood of mutually advantageous adaptive behavior. The realignment of long term goals seemed to have further reduced social and cultural distance and strengthened the actor bonds.

### **Episode 4 - Crowdfunding Project and Avoiding Furloughs**

The partnership is running smoothly, and Company D also continues to take advantage of the branding-effect the partnership with D1 brings. A few days after the interview with Company D for this thesis, the company launched a new website, and one of their first crowdfunding campaigns, where the cooperation with D1 was front and center in the marketing. The CEO also said that the partnership is expected to be financially profitable moving forward, but that it had already paid off considering all the branding and PR benefits. In addition, the partnership also allowed them to be more flexible than before, and produce on short term notice. As mentioned in subchapter 3.3.2, this master thesis

was written in the midst of the COVID-19 pandemic, a period where many companies were forced to furlough employees. This seemed to be the faith for D1 as well until the parties managed to find a solution. The following shows a quote from the CEO's Facebook page, written on his birthday:

*Birthday is really cool - thanks for the generous words. No party this year, but I got a really good gift. Last week I talked to our seamstresses at Tøyen about how we could organize layoffs. But it felt too silly so we took a small workshop - and sim salabim - we came up with an idea we had to test. Wednesday night we launched the idea and when I woke up yesterday we were past 100% funding (and it's still growing). Now I can't wait to call and tell them that we don't have to do layoffs (CEO of Company D, Private Facebook post, 2020).*

This highlights the strong actor bonds and high commitment between the parties: In such a challenging situation, they managed to work together and find a mutually beneficial solution to avoid layoffs. At this point, the parties had close personal relations and high trust which strengthened the partnership. According to Brennan & Turnbull (1999), trust has been found to increase the likelihood of mutually advantageous adaptive behavior. The findings also show that they are successfully creating value based on strengths, and have an alignment of mutual goals, which are strong signals of a successful partnership (Batonda & Perry, 2003).

### **Summary**

The relationship with D1 started as a trial project. From the initiation, Company D showed high commitment and willingness to invest time and get to know D1. Despite some cultural distance, the parties were able to quickly align on different methods of working and reduce both social, cultural, and technological distance. Frequent in-person meetings helped create strong actor bonds. Company D moved quickly from the searching process to the starting process and might have missed out on other potential partners due to the absence of a structured searching process. The parties are successfully creating value and delivering on their goals.

#### **4.4.2 Developing an Existing Strategic Partnership with Clothing Manufacturer D2**

The relationship with Company D's main clothing manufacturer, hereby referred to as D2, also changed with the company's transition to a more circular business model. With continuous production over several years, D2 is closely integrated into Company D's business model and supply chain. The factory is fully vertical and handles everything from purchasing yarn to manufacturing and shipping the end product. The parties have produced several collections and innovative solutions together over the years.

### **Episode 1: Continuous Production and Adapting**

According to the CEO of Company D, they had a good personal relationship and trust in D2. Earlier in the partnership, D2 had adapted their routines to use environmentally-friendly fabrics and packaging in order to meet Company D's needs:

*D2 has been a good partner. They have been flexible and open to new suggestions, especially when it comes to being more environmentally friendly. We have always pushed a bit towards that, and they have listened. We have produced a lot of good clothes together (CEO, Company D).*

The findings show that the parties have high trust, alignment of goals, and that they know each other, which is indicative of a strong relationship. According to Dubini & Aldrich (1991), mutual trust and behavior lay the foundation for long-term rewards, as it reduces the risk for the involved parties. In addition, when parties know each other they increase the possibilities to utilize the resources and perform activities better (Corsten & Kumar, 2005; Gadde, Heumer, & Håkansson, 2003). In addition, with continuous production and close integration, the partnership had developed strong activity links and resource ties. The relationship is in the ongoing maintenance process, and as in line with the findings of Ford (1995), they continue to exchange knowledge and have further adapted to each other. D2 also seemingly shares similar sustainability values, which is important for Company D. This episode shows a strong alignment of long-term goals, high adaptability, and strong actor bonds between the parties.

### **Episode 2: Forming a New Activity Link**

With the strong partnership from the previous episode and the CEO's never-ending quest to be more sustainable, a new idea emerged. The idea was to buy left-over material from D2, to use in the production with D1, as presented in section 4.4.1. The new idea was a welcoming request:

*(..)They sit on thousands of meters of leftover fabrics, which in practice is unused and they just want to get rid of it. We have contacted other factories as well, and they just want to get rid of them as well, so they are positive (CEO, Company D).*

When asked how he proceeded to make the request, the CEO said:

*Really it was not that exciting, we only asked when we came up with the idea, and then we got a price list, and then we just said yes, please. They thought the project with D1 Oslo was very cool and went to great lengths to help it. And the interesting thing is that there is great potential there. And that's a typical win-win situation (CEO, Company D).*

Company D first bought a small batch to try in the production. And after a successful first production, they have continued to order more as the production with D1 increases.

The findings show that the new activity link started as a trial project. With an already strong relationship and high trust, the trial project was quick, and the new activity was formed quickly. The parties were also in frequent contact and shared information about each other's projects, such as the Oslo project. According to Prior (2012), information sharing between two parties leads to better financial returns, as it enables better utilization of their assets. Furthermore, although Company D was in contact with other factories, the low distance and positive prior experience made it easy to choose D2, as these parameters are used to evaluate new partners (Ford, 2001; Huang & Wilkinson, 2013). According to Håkansson & Snehota (1995), activity links change with new strategic directions and initiatives. However, with good alignment of long-term goals and compatibility, the relationship can continue to grow stronger, as it did in this episode. In addition, the findings above revealed that D2 is favorable to Company D's partnership with D1, which further shows the alignment of similar values and a close relationship.

### **Summary**

From an already strong partnership with substantial activity links, resource links, and strong actor bonds, the parties were quick to align on the new activity. In addition, the partners share values and are able to create value based on strengths. The partnership is currently in the ongoing maintenance state, and in line with Ford (1995), they continue to exchange knowledge, build social relations, and further adapt to each other.

#### **4.4.3 Developing an Existing Strategic Partnership with IT Partner D3**

Another partnership that developed together with Company D was an IT partner, hereby referred to as D3. According to the CEO of Company D, a part of the solution to reduce overproduction is to shift from a transactional to a more continuous relationship with customers where they can take part in the company's strategic work. To facility this, they are building a new digital platform with D3:

*So we're creating an online platform where customers can participate in the strategic work, order clothes before they are manufactured, provide product and marketing feedback, and develop new ideas. This will enable us to avoid overproduction, and help us create better products (CEO, Company D).*

Company D had worked with D3 before creating the platform when they developed their existing e-commerce. However, the partners had not worked together for a long time.

### **Episode 1 - Forming a New Activity Link**

During the initiation of a new e-commerce project, Company D came up with the idea to develop the platform, and see if D3 wanted to do the job.

*I basically came up with the idea, pitched it to them, and sparred back and forth to figure out if this is something we'd want to develop. Throughout the discussions they thought it was a great idea with a lot of potential, so we basically decided to do it (CEO, Company D).*

According to the CEO of Company D, they were not completely sure what to build, and are still figuring this out with D3. In addition, the CEO of Company D had a favorable impression of D3:

*So, we're not completely sure the exact features and prioritization for this project. This is something we're working closely with them on. They are really skilled at this type of project. Many IT firms claim to be supporting startups and being innovative and actually have a passion for their profession, but D3 really does. They go the extra mile.*

These findings show that the parties already had substantial actor bonds and low social distance, as they were familiar with each other. According to Corsten & Kumar (2005) and Gadde, Heumer, & Håkansson (2003), knowing each other well increases the possibilities to utilize the resources and perform activities better. This further shows that cultural and technological distance was low, as D3 built the technology behind their e-commerce store. According to Ford (1995), it is important to continue to reduce distance and increase trust in this process. The new project also further strengthened the resource ties in the partnership as they are now exchanging knowledge and creating new, unique solutions together. According to Batonda & Perry (2003), creating value based on strengths like this can help build a unique competitive advantage, and is indicative of a strong partnership. This episode shows the partnership has created a new activity link and further strengthened the parties' relationship.

### **Episode 2 - Stock Compensation**

Company D is a small company with limited liquidity, which makes it challenging to build large software solutions that require upfront monetary investments. However, D3 receives shares in Company D as part of their compensation for building the new platform. Through good communication with D3, the CEO brought up the idea about stock compensation, which after some brief discussion, D3 quickly accepted. The following statement emphasizes the close relationship between the parties:

*They are truly unique, and they're willing to be compensated in shares of the company and not only cash, which is very preferable for us in this situation. We do*



*this because we believe they'll be a valuable asset to the company in the long run, and be a part of our vision (CEO, Company D).*

This indicates substantial commitment and a very strong relationship: D3 is willing to forego short term financial gain in the hopes of realizing value in the long term through shares in Company D. This high mutual trust also indicates the partnership has a strong foundation for long-term reward, as suggested by Dubini & Aldrich (1991). In addition, Huang & Wilkinson (2013) found that companies in relationships with higher levels of trust take more risk related to commitments of resources. While this master thesis was written, the company completed its first crowdfunding through the platform built with D3, which was sold out within a few hours. Directly after the campaign is complete, D1 started production of the orders, which is set to be delivered a few weeks later. According to the CEO, this pilot project represents an interesting strategy and a new activity that has not been done before.

### **Summary**

At this point, the relationship is in the ongoing maintenance process, and the new activity link has led to stronger resource ties, connecting the partners even closer. The relationship has strong actor bonds, with low cultural, social, technological, and geographical distance. In addition, D3 is willing to receive stock compensation for their work, which emphasizes the partnerships' strong alignment of long term goals and high trust.

#### **4.4.4 Analysis of Changes in Strategic Partnerships of Company D**

The findings show that Company D both established new strategic partnerships and developed existing with new activities when innovating to a circular business model. Branding and the need for new capabilities were important drivers behind the changes. However, with a visionary CEO who wants to change the fashion industry for the better, the environmental aspect was equally important. This is further reflected in their willingness to forgo short term financial gain from the new partnerships, despite having limited financial resources. Thus, establishing new partnerships or changing existing partnerships were based on improving environmental aspects, even though financial profit was uncertain. According to Håkansson & Snehota (1995), the process of developing and utilizing resource ties is expensive and time-consuming but can create new opportunities if it leads to better productivity and innovation.

In the searching process, Company D looked for smaller companies with high flexibility and willingness to adapt to new circular activities. The new partners were based on experience and primarily environmental aspects, as well as financial. Furthermore, the finding reveals that Company D met their new partner by chance, and did not conduct a proper searching

process. According to Ford (1995), this indicates they might have missed out on other potential partners.

Characteristics of Company D's new activities and strategic partners was a high degree of novelty. For many of the new activities, the partners themselves had little or no experience. This explains why all of the partnerships or activities started as trial projects, where the parties spent the time to adapt to each other and ensure alignment of long term goals. According to Batonda & Perry (2003), this alignment is important in the starting process. These findings further shows that Company D was the driving force behind the changes and the one who introduced new activities.

The findings highlight Company D's focus on building close, personal relationships and actor bonds with its strategic partners. The company and the CEO had close personal bonds and high trust established through frequent in-person meetings which strengthened the relationship. According to a study by Prior (2005), the actor bonds were shown to be the relationship element with the most influence on competitive outcomes. In addition, a study by Mason & Leek (2012) found that face-to-face meetings are found to lead to tangible and intangible benefits when the actors try to adapt to each other.

## 4.5 Cross-case Analysis

In the following, an analysis of the similarities and inequalities between how the four fashion companies' strategic partnerships changed when innovation towards a circular business model will be presented.

### 4.5.1 Development and Ending of Existing Strategic Partnerships

First, a comparison of how the existing strategic partnerships of the four fashion companies have changed will be analyzed.

#### **The Need for Changes in Activity Links with Existing Partners**

Findings from the individual analyses indicate that the fashion companies' need for new circular activities was considered as an important episode, as it affected the existing strategic partnership of all four companies. In the majority of the companies, the episode first affected the activity links between the focal firm and its existing strategic partner. However, the previous analysis shows that the activity links changed differently in fashion companies. According to Leicher & Dowling (2003), companies might cut or continue to develop existing bonds with partners when facing changes in the environment, which is displayed through the findings: Company D aimed to establish new activity links with its

existing strategic partnerships. Conversely, Company C required non-sustainable activities to be performed in a more sustainable way, hence restructuring current activity links. Company A, on the other hand, did the same as both Company C and D, i.e. aimed to both change its existing non-sustainable activity links, as well as establish new ones with its existing partners. For Company B, it was hard to find alternatives to change the partnerships. This implies that when a circular business model is implemented, the majority of fashion companies experience a change in their activity links with strategic partners, either by establishing new or requiring a change in current non-circular activities.

### **Evaluation and Trial Projects with Existing Strategic Partners**

When the focal companies initiated the changes, the majority presented the new activity for their existing partners instead of finding a new partner. For many of the partnerships, the parties had previously not collaborated on activities based on the transition to a circular and more sustainable business model. Thus, their relationship was reactivated to the searching and starting process as the parties had to align on the new goals and ensure long term compatibility, as suggested by Aarikka-Stenroos (2008). By reactivating a relationship due to the emergence of new business opportunities, the companies involved can skip development activities that are important for building new actor bonds (Polonsky, 2010). As actor bonds require lots of effort to develop (Huemer, 2014), the fashion companies could save time and resources by continuing their partnership with their existing partners, compared to finding new ones. However, there was more uncertainty in the relationship than before, as the parties had to find new ways of working together and create value due to the novelty of the new initiatives. This uncertainty was reduced through trial projects, as suggested by Larson (1992). These findings imply that circular business model innovation requires a realignment of long term compatibility through trial projects. If there is alignment and the new activities are successful, the fashion company will benefit from continuing with its existing partner, compared to finding a new one, as it involves lower risk.

### **Termination or Further Development of Existing Strategic Partnerships**

The fashion companies that had developed strong actor bonds with its strategic partners over time were found to succeed in their trial projects. According to Prior (2005), actor bonds are found to have a strong influence on competitive outcomes, as it leads to mutual adaptation and understanding. Conversely, Company C experienced several failed trial projects, in particular in the relationships with weak actor bonds and resource ties. These partnerships had lower levels of trust, which is found to be important for adaptive behavior in relationships (Prior, 2005). For these cases, the trust was weak since the parties did not know each other well. In comparison, Company A, B, and D had regular face-to-face meetings where the parties got to know each other better, as suggested by Styles & Hersch (2005). Moreover, Company C gave these strategic partners an opportunity to change, using the voice strategy (Hirschman, 1970). However, the parties found it hard to align

their goals, and thus ended their relationship. This implies that investing in developing strong actor bonds is important when innovating towards a circular business model, as the parties will be more willing to adapt and understand each other and the new requirements.

#### 4.5.2 Establishment of New Strategic Partnerships

In the following, an analysis will follow on how the fashion companies established new strategic partnerships.

##### **Establishing New Strategic Partnerships due to New Circular Activities**

The analysis also shows that all four fashion companies searched for and evaluated several new strategic partnerships when innovating towards a circular business model. According to Polansky (2010), companies have to invest in new relationships when an existing partner's resources are no longer valuable. This is displayed in the analyzes, as the fashion companies did not have the resources required to implement brand new circular activities internally or through existing strategic partners. However, only one of the companies, Company C, started to search for new strategic partners as a result of other strategic partnerships ending. According to Ford (1995), previous episodes in other relationships can affect a decision to evaluate potential new partners. In this relationship, the actor bonds between the parties were weak. Hence, a fashion company might have to replace existing strategic partnerships with new ones if the relationships are weak. Essentially, the novelty of the circular activities requires the fashion company in many cases to establish new strategic partnerships when innovating towards a circular business model.

##### **Searching for New Strategic Partners**

Findings from the analysis reveal interesting patterns in how the fashion companies found potential new strategic partners in the searching process. In most cases, the fashion companies got in contact with potential partners by chance for instance at events, articles, or referred to through its network, and not through a structured searching process. Additionally, some fashion companies were contacted by startups and small companies that wanted to offer their new circular initiatives e.g. a technology. Thus, as stated by Aaboen & Aarikka-Stenroos (2017), the focal company is not always the one that initiates the contact. The findings imply that the searching process involved direct contact with only a few potential partners, which is not considered a normal procedure as the company tends to keep all options open (Polonsky, 2010). This can be explained that some companies found it hard to find potential partners, and thus going forward with those they met randomly. This implies that there are few actors offering circular services, which makes it hard for fashion companies to find a new partner. However, both parties can initiate contact. Thus, fashion companies often have to choose the first and best alternative and be open to potential partners that initiate contact with them.

### **Evaluating Criteria for New Strategic Partners**

According to Ford (1995), a company evaluates a new partner based on previous experience with its strategic partners. However, as many circular activities were brand new, the fashion companies often had a limited basis for comparison with similar partners. On the other hand, the findings reveal that fashion companies tended to prefer startups or smaller companies in the evaluation process. The flexibility and agility of smaller companies were highlighted as important, as well as unique technology and higher focus on sustainability, as opposed to established companies with fixed routines. This implies that the fashion company's experience with large and established companies affected the evaluation process to a certain degree. Additionally, fashion companies considered the fit better with startups, which is an important evaluation criterion according to Styles & Hersch (2005). Furthermore, the companies evaluated potential partners in light of a financial aspect. Company A and D focused less on short term economic profitability but instead handled it as a long term investment. In comparison, Company B and C focused more on what prices the potential partners could offer. Lastly, all companies emphasized the branding effect of the relationship and that the potential partners shared the same sustainable values as them. This implies that fashion companies to some extent use similar evaluation criteria, but select differently when it comes to economic profitability.

### **Testing New Strategic Partners Through Trial Projects**

When the fashion companies had decided to go forward with a potential new strategic partner, they initiated a trial project in order to test the partner on different aspects. Trials are set up by one of the parties with an aim to disclose a set of mutual goals and objectives (Aarikka-Stenroos, 2008; Larson, 1992). This was done by all fashion companies, as they had limited experience with the new circular activities and there were no established industry standards that the parties could follow. Therefore, these relationships were characterized by a high degree of uncertainty in the beginning. In order to reduce the uncertainty by ensuring the compatibility of long term goals, the parties had to put in substantial effort to get to know each other. The findings showed that most fashion companies managed to reduce these challenges and evolve the relationships further, mainly through regular and physical contact. On the other hand, Company A experienced that one of its new strategic partners was not able to adapt due to lack of trust and capabilities, which led to them ending the relationship. Trust is found to be important for adaptive behavior and is developed and dependent on strong actor bonds (Prior 2005). This highlights the importance of investing in building strong actor bonds, as suggested by Prior (2005) & Huemer (2014), even though it requires effort from both parties.

## 5 Discussion

In this section, the key findings and how they build on existing literature will be discussed. The qualitative study enabled the authors to collect in-depth data and contribute to filling some of the literature gaps on strategic partnerships in circular business models of fashion companies.

Firstly, Antikainen et al. (2019) state that all actors involved with the focal firm need to invest or change their business model in order to succeed with the circular business model innovation. This is in line with findings from this study, showing that the fashion companies managed to implement circular initiatives with the partners that showed a willingness to change. However, the fashion companies sometimes failed to implement circular activities when their existing partners were not willing to adapt and they could not find a replacement. Conversely, our findings imply that if the fashion companies were able to find a new strategic partner as a replacement, they also succeed. This coincides with previous research by Niinimäki (2018), which states that companies may also find it necessary to establish new partnerships when changing towards the circular economy. Hence, this study suggests that the success of the implementation is not interdependent on all existing strategic partners changing their business model, as the fashion company might find new partners and still succeed with the transformation.

Moreover, findings for this study indicate that the fashion companies' need for new capabilities, due to the implementation of circular initiatives, was a driver for why they established new or developed existing strategic partnerships. The new initiatives were uncertain and novel, leading to high risk associated with the implementation. Thus, the companies wanted to outsource the required capabilities as it was time-consuming and costly to develop internally. These findings are in line with research by Veleva & Bodkin (2018), stating that collaboration with strategic partners contributes to the transition by providing needed capabilities, e.g. expertise and resources. In addition, Frishammar & Parida (2019) identified branding as a driving force for involving new strategic partners in the circular transformation, as strategic partners could strengthen the focal company's brand position as a sustainable actor in the fashion industry. This coincides with this study, as the fashion companies saw both new and established strategic partners as an opportunity to improve their own environmental reputation towards its stakeholders.

Furthermore, economic profitability was not an important driving force for why many of the fashion companies collaborated with strategic partners when innovating towards a

circular business model. Stål & Corvellec (2018) state that financial profitability is not proven in the context of circular business models. Findings from this study are to some extent consistent with Stål & Corvellec (2018), as some fashion companies were aware that the economic profitability of the transformation was highly uncertain. Even though these companies developed strategic partnerships for the long-term marketing effect, they aimed to create long-term profit. This coincides with research by Lahti, Wincent, & Parida (2018), stating that circular business models will be profitable in the long term. Conversely, findings from our study show that some of the fashion companies were unwilling to forgo short-term financial profitability. In particular, this was related to circular activities in the manufacturing process, e.g. using recycled and leftover materials. Hence, this study implies that it is possible for certain circular activities to generate profits early on, but that it is still uncertain how long it will take for most circular activities to be profitable.

Previous literature states that the focal firm is the driver for change when innovating towards a circular business model, but that the strategic partner might be the one with domain knowledge or resources (Lahti et al., 2018). This study highlights two views that both agree and disagree on this topic. Firstly, when it comes to existing strategic partnerships, fashion companies usually initiated changes by restructuring existing or establishing new activity links, hence supporting the research of Lahti et al. (2018). In these cases, the fashion companies had necessary domain knowledge, sometimes just as much as their strategic partner. This was mainly related to circular activities that were more known in the industry, e.g. replacing materials made of virgin resources with recycled fabric or using leftover materials in the production. Second, the findings indicate that new strategic partners also could be the ones initiating the change, for instance by introducing a new technology or process to the focal firm. As these activities were relatively innovative in the industry, and often unknown to the fashion company, the strategic partners were the one with domain knowledge and resources.

There is a lack of empirical studies on how a company can find new and valuable partners (Antikainen et al., 2019). Findings from the previous analyzes in this thesis contribute to closing this gap, as they show that the fashion companies often found their new strategic partners at random, e.g. through events or industry networks. In addition to performing activities that the focal company had initiated itself, some of these partners suggested activities that were new for the focal firms. Hence, partners that were found randomly were valuable for the focal firms in several ways. This highlights the importance of the focal firm having an external focus and also being aware of opportunities that an unknown strategic partner could offer, as suggested by Frishammar & Parida (2019). Furthermore, the fashion companies evaluated only one, sometimes a few, potential strategic partners. Hence, the companies could have missed out on potentially other valuable partners. On the other hand, some findings indicate that the fashion companies struggled to find alternatives, as there were few that could provide similar circular activities. This is suggested as a challenge

of circular business model innovation, as there still are few companies that provide such solutions in the industry. The findings also reveal that in some cases, the startup was the one that initiated contact to present their technology and solution to the buying company, in line with the findings of Aaboen & Aarikka-Stenroos (2017).

Furthermore, when implementing a new circular initiative, our findings indicate that the fashion companies experienced startups or small companies as highly flexible and adaptable strategic partners compared to larger firms with fixed solutions. These findings are in line with research by Oncioiu (2018) and Hockerts & Wüstenhagen (2010), which state that smaller strategic partners can help the focal firm to succeed with the circular transformation because they often possess disruptive innovation and more sustainable solutions than its competitors.

A study by Antikainen et al. (2019) on circular business models suggested that more research on how strategic partnerships are implemented in practice should be conducted. Findings from this study reveal that fashion companies conduct trial projects with both existing and potential new strategic partners to ensure alignment of goals and capabilities. For instance, the fashion companies used their end customers to test the circular initiatives on a small scale. These findings somewhat coincide with a study by Linder and Williander (2015), which recommends conducting trial projects with new partners. Next, some investments were needed, but these trial projects did not require large monetary investments. Thus, the findings suggest that fashion companies should perform trial projects with both new and existing partners to reduce the risk of transforming towards a circular business model.

There is a common agreement in the literature that long-term relationships with partners lead to opportunities for value creation when innovating towards a circular business model (Bocken et al., 2014; Antikainen et al., 2019). This was to some extent evident in this study, as long-term relationships were found to be valuable for the fashion companies that had developed strong and personal actor bonds with their partner. These strong bonds were found important as they led to better utilization of resources and increased willingness to adapt to each other, which resulted in effective and innovative circular initiatives. Conversely, strategic partnerships that did not develop such bonds struggled to create and implement several circular activities due to lack of mutual commitment, understanding, and willingness to invest. As a result, these partnerships were either terminated or challenging to develop. As such, this thesis gives valuable insight into the topic of long-term strategic partnerships.



## 6 Conclusion

This chapter presents a conclusion of the research question and how the study has contributed to the research field on circular business models within the fashion industry.

### 6.1 Findings and Research Contribution

This thesis has aimed to answer the following research question: *How will the strategic partnerships of fashion companies change when innovating from a linear business model to a circular business model?*

First, it is clear that strategic partnerships change in different ways when a fashion company innovates towards a circular business model, and that they play a crucial role in the process. While some existing partnerships evolve or end due to the focal company initiating new or restructuring current activity links, others are established when the strategic partner introduces new activities to the focal firm. This study contributes to a better understanding of this process, as our findings reveal that strategic partnerships of fashion companies with strong and personal actor bonds are more willing to adapt and take higher risks regarding the resource investment.

The findings imply that the fashion companies' desire to strengthen their brand position and the need for new capabilities related to the circular business model are driving forces behind the change. As such capabilities are costly to develop internally, the fashion company acquires these resources externally through the development of both existing and new strategic partnerships. This coincides with previous research (Veleva & Bodkin, 2018), hence contributes to validating existing literature in the field. Moreover, some fashion companies are willing to forgo short term financial gain when entering new partnerships, while others require a financial return from the start. However, for most fashion companies, the development of strategic partnerships is a long-term investment that they hope will contribute to economic profitability over time.

While previous research lacks empirical studies on how new strategic partnerships are found and implemented (Antikainen et al., 2019), this study reveals that fashion companies often find their new strategic partnerships randomly and include only one or a few potential partners in the initial evaluation. Hence, their searching process can be described as

unstructured. Moreover, findings from our study show that fashion companies prefer to establish new strategic partnerships with startups and small companies, especially when implementing circular activities that are new in the industry, as they perceive smaller companies to be more flexible compared to large ones. Hence, our study has contributed to empirical research on the establishment of new strategic partnerships in circular business model innovation.

Finally, fashion companies run trial projects on new circular activities, both with new and existing strategic partners, in order to align goals and capabilities before committing to them. This method was seen as a common denominator in our empirical research. As these trial projects require less investment, the fashion companies reduce the risk of investing in wrong partner at an early stage of the circular business model innovation process.

## 6.2 Recommendations for Further Research

Our study has investigated strategic partnerships from the focal company's perspective, as well as focused on environmental and economic aspects. Further empirical research should investigate both parties' perspectives, to better understand how to create win-win situations (i.e. positive triple-bottom-line results) with strategic partners in a circular business model.

## 6.3 Implications for Practice

The following list presents several guidelines and recommendations for circular business model innovation. These points are based on the findings from this research and are intended for sustainability managers or project leaders in fashion firms who work with strategic partnerships and circular initiatives. When innovating towards a circular business model within the fashion industry one should consider the following options:

- 1) In order to reduce risk, perform trial projects together with your new or existing partner. The new activities can be complex and require more than first anticipated. Trial projects will allow you and your partner to better adapt and increase commitment gradually.
- 2) Unique opportunities can emerge when you least expect it. Be open to small and large companies that approach you, and attend relevant events or other arenas where you can meet potential partners. Startups often possess new and unique technology that can be valuable in your circular business model and lead to favorable publicity.

3) Set aside time to get to know your partner through regular face-to-face meetings. This can help you build personal and long-lasting relationships, which are important when implementing circular initiatives as it increases the partner's flexibility and adaptability for changes.

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