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Department of Economics

# **Significance of a Sustainable Business Model**

-the case of IKEA, Swedish Retailer in Furniture and Home Accessories

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# Abstract

In the modern era of industrialization resource depletion and carbon footprint of commercial activities is an important concern. Awareness about the impact of conventional commercial activities is increasing among the consumers as well as organizations. As the demand of goods may well continue to increase with a consistent increase in population, responsible organizations have been looking for ways to conduct their activities in a more sustainable manner and rational customers tend to prefer Sustainable Products (SP). The dilemma, however, is how to evolve conventional businesses into such a state that continues to fulfil the expectations of the customers while minimizing the impact on environment.

The focus of this study is to understand why conventional Business Models (BM) should be transformed into Sustainable Business Models (SBM) and how can it help to meet the interests of customers. The aim of this thesis is to understand a link between SBM in producing SP. This research intends to understand the importance of customer in light of Stakeholder Theory (ST) and importance of Circular Economy (CE) to achieve a SBM. Furthermore, the author of this study derived a conceptual framework from theories to answer the research question. To investigate this scenario a qualitative approach based on secondary data, a case study of IKEA was conducted. The study has also considered insights from previous researches on IKEA regarding sustainability issues.

Pattern matching technique was applied to analyse theoretical and empirical data. The empirical study supported the theoretical framework and revealed a matching pattern. This pattern match supported the selection of theoretical framework. Based on this analysis, it could be argued that CE principles and strong Corporate Governance (CG) can possibly help businesses to strengthen their business strategy as well as help transform their BM into a SBM. However, considering the complex supply chain and dependencies of large businesses on the legal, economic, social and industrial environment they operate in, there is a lot yet to be done to get to the ideal stage of having a fully SBM.

# Abbreviations

Abbreviation	Description
3R's	Reduce, Reuse and Recycle
BM	Business Model
CE	Circular Economy
CE100	Circular Economy 100
CG	Corporate Governance
CSR	Corporate Social Responsibility
EU	European Union
FYGL	Forum of Young Leaders
PA	Paris Agreement
PPP	People and Planet Positive
PS	Post Scriptum
SBM	Sustainable Business Model
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprise
SP	Sustainable Products
ST	Stakeholder Theory
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WEF	World Economic Forum

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# 1 Introduction

The focus of this chapter is to present a detailed background and understanding of a problem in context of this research. Accordingly, the aim and research question were formulated based on the described problem statement. In succession, delimitations were defined for the study.

## 1.1 Background

In today's world, consumption patterns are causing a pressure on natural resources (Rockström, et al., 2009). Managing resources in a sustainable manner has become a leading concern for business organisations (MacArthur, et al., 2015). Economies around the world have realized the impact of industrialization on natural resources and are showing interest in sustainable solutions to reduce this impact (Rönnberg, 2017). A great global initiative was taken on April 22, 2016 by 195 members within the United Nations Framework Convention on Climate Change (UNFCCC), known as the Paris Agreement (PA) (United Nations Treaty Collections, 2015). The aim of PA is to help countries deal with the issues of greenhouse gas emissions mitigation, adaptation, and finance with a collective effort. The PA will help to identify environmental challenges, possible corrective and preventive actions in a multinational context. PA is evaluated by a system of 17 global goals called the Sustainable Development Goals (SDGs). These are integrated goals to take collaborative actions by all countries, societies, sectors and stakeholders (United Nations, 2015).

As commercial organizations around the world use natural resources to produce products for their customers, they have a significant impact on the environment (Rönnberg, 2017). With ever growing demand and market competition, many companies tend to ignore the importance of sustainable practices in the way they conduct their business (Kammerl, et al., 2015). Such practices by companies may lead to a higher burden on the natural resources and can affect the value proposition of their products. An organization is driven with its Business Model (BM) (DaSilva & Trkman, 2014). Therefore, it is important to understand how a change in BM can influence the value proposition of products for their customers.

To reduce the damaging footprint of industrialization and global warming, public and private organisations have adopted rational measures for responsible production and consumption. For industrial revolution McDonough and Braungart (2001, p. 150) presented an idea of sustaining solutions by utilizing resources in efficient way to sustain human activities in coming years. Sustainable products (SP) are becoming a reason for competitive advantage. Businesses that focus on leading customers that prefer products with the smallest possible footprint have the opportunity to expand their current market as well as establish totally new markets (McDonough & Braungart, 2001). The concern for sustainability is changing from an ethical obligation to an imperative as the rules for businesses are changing. Suppliers are affected by further environmental restrictions and the customers attitudes are changing towards SP (Beltramello, et al., 2013).

The application of such practices is observed by several large organizations and corporations who have adopted sustainable patterns as core practices in their businesses in order to achieve competitive advantage (Boons & Lüdeke-Freund, 2013). One such idea is to rethink the patterns of production and consumption in a sustainable manner by reducing waste which is known as the Circular Economy (CE) (McDonough & Braungart, 2001). The implementation of CE could be possible through BM. BM represents the structure and strategies to describe how firms do business and attain economic value through capability management (Teece, 2010). The

transition towards the CE involves an alteration of the existing/traditional BM and business strategy. The transitions will be based on the need for improving business performance of linear model of production and consumption (McDonough & Braungart, 2001). These transitions will affect the interacting system of actors including the producers and customers (Weber, 1990). This approach ultimately aims to shift towards more sustainable models of production and consumption (McDonough & Braungart, 2001).

A traditional BM is based on a concept where the products are made by using raw material and when the product ends its life it is thrown out or disposed of (Sariatli, 2017). This approach is known as the *linear economy* approach or *take-make-dispose* (ibid). An alternate approach of CE promotes a sustainable product life cycle based on three principles, the so-called 3R's i.e. *Reduce, Reuse and Recycle* (Ünal, et al., 2019). The core idea of this approach is to utilize resources efficiently by adding value to it. Therefore, the conventional way of doing businesses is altered with new innovative methods where *the take-make-dispose strategy* has been substituted with a *circular strategy*.

Traditionally, business organisations put the economic aspect on their higher agenda by neglecting social and environmental aspects (MacArthur, et al., 2015). But now, it is observed that an increasing number of organisations are considering societal and environmental dimensions as well (ibid). In summary, for BMs, the business philosophy is the main driver, whereas in the SBM value propositions of both business and environment are considered (Teece, 2010).

In terms of features, different business models have diverse features but the common fundamental principle is to have a positive impact on all three dimensions i.e., *social, environmental and economical* (Stefan, et al., 2016). According to Schaltegger, Sustainable Business Models (SBMs) are those which fulfill the current and future product needs of the customers' as well as create value for the company's stakeholders. Corporations have to manage their activities to maintain the balance between these three dimensions which will lead towards sustainability. Sustainability helps the firms to strengthen the relationship between all stakeholders. Freeman explained stakeholder are all those people or groups who can affect or are affected by the actions in the corporation (Reed & Freeman, 1983). According to the UKessays (2016): "*Companies are under growing pressure to be accountable not only to shareholders, but also to stakeholders such as employees, consumers, suppliers, local communities, policymakers, and society-at-large*". Many scholars have demanded for a more considered effort to meet the sustainability challenges (Ghisellini & Ulgiati, 2019). It is similar to creating shared value framework of opportunities within the supply chain (Reed & Freeman, 1983).

During past decades many large organizations have considered Corporate Social Responsibility (CSR) as a driving force of transformation from *producer-based* to *consumers-based* organization (Edvardsson & Enquist, 2011) that means organizations just not have to think about their profits and interests but give priority to the needs and interests of customers and other stakeholders. The term CSR refers to an organization's social commitment with its internal stakeholders (shareholder, workers, employees, managers, the board of directors, investors), and external stakeholders (consumers, regulators, investors, suppliers, society, nature) (Singh, et al., 2016). For which, Luo and Bhattacharya (2006) exposed a positive relationship between CSR and an organization's profit.

From the Fortune 500 companies, as many as 90% have declared CSR initiatives (Luo & Bhattacharya, 2006, p. 1). According to Businessweek substantial investments were made by

large companies with a target donation of 3.6% of pretax profits. General Motors donated \$51.2 million, representing 2.7% of profits, Merck donated \$ 9,221 million representing 11.3% of its pretax profits. These contributions reflect that the companies understand that CSR is not only the right thing to do but a smart thing to do (Luo & Bhattacharya, 2006, p. 1). Based on this highlighted importance of CSR, many business studies have found that CSR programs make a significant influence on customer behavior and customers' product attitude (Luo & Bhattacharya, 2006, p. 1).

A good understanding of aforementioned concepts can be acquired in context of a company which practices these methods in its business strategy. Relying upon the IKEA's claims towards its sustainable practices for making SP, the author of this study has picked up IKEA as a case.

## 1.2 Problem

While the human race has made a lot of industrial and economic progress over the centuries, the question we face today is whether our lives will remain sustainable if we do not watch out how we use natural resources and what kind of impact we are making on the environment and society. One way or the other, all companies make an impact on the society and the environment (Ciulli & Kolk, 2019). This impact could be positive or negative depending upon the approach taken by a company (ibid). A vast majority of the commercial organizations use a conventional BM (*take-make-dispose*) (Sariatli, 2017) which is developed to create profits for the organization.

Developing a new BM requires exploring alternatives to current ways of doing business as well as understanding how companies can meet customers' needs (Oghazi & Mostaghel, 2018). The dilemma of over exploitation of finite natural resources could possibly find a solution in SBM (ibid). It focuses on value creation and sustainable economic growth (MacArthur, et al., 2015). The concept of CE is high on the agenda in the European Union (EU). The action plan of EU is to develop the economy having smaller carbon footprints and deliver competitive advantage for Europe (European Commission, 2015).

In countries like Sweden, where there is a lot of focus in corporate culture is on CSR, keeping CE at the core of the BM can help protecting the interests of both corporates and their customers. Sweden is putting emphasis on launching sustainable initiatives by the promotion of CE (Rönnerberg, 2017). The focus is to become resource efficient by leading motivations for change and reform (ibid). Sustainability is the integral part of development and for that there is a need to alter current ways of doing business (Nidumolu, et al., 2009).

Commercial organizations and their customers generally have competing interests. While corporations wish to maximize their revenues and profits, their customers look for better prices and value for money (Carrillo, 2007). Moreover, the objectives of the firm should be achieved by creating a balance between the interests of all stakeholders (Reed & Freeman, 1983). In order to reach this, a commercial organizations could establish a SBM, potentially using the concepts of the CE to align the interests of internal and external stakeholders (Antikainen & Valkokari, 2016).

In most cases, customers have a choice of products and services which pushes the corporations to compete with each other on product features, costs, quality and value for money (Oghazi & Mostaghel, 2018). One important feature of a product could be how sustainable they are. Therefore, in the modern ethical era not only organizations but customers become resource conscious and make rational choices to reduce negatives impacts from the environment (Garetti

& Taisch, 2012). They prefer to utilize and adopt environmentally friendly products (Nosratabadi, et al., 2019). It can be elaborated with this quote “*Sustainable business models have a global market perspective, taking into account the development of new industrialized countries as well as the need for more sustainable products and services*” (Garetti & Taisch, 2012, p. 88). As a SBM aims to promote responsible use of resources and value creation, the researcher will conduct a deeper academic investigation in order to understand how SBM can find answers to create better value for the customers of an organization.

### 1.3 Aim and Research Question

This thesis aims to understand a link between a Sustainable Business Model (SBM) in the creation of Sustainable Products (SP). As consumers will be the users of these products, the study will evaluate the importance of customers as stakeholders for a commercial organization. Traditional BM consider the economic aspect only and cannot create SP which have less environmental impacts therefore traditional BM are lacking in protecting the interests of rational customers who give importance to society and environment while purchasing the products.

Broadly speaking, the researcher will explain the importance of SBM for creating SP to meet the interests of customers. The researcher will develop an understanding of the importance of customers in light of the Stakeholder Theory (ST). The thesis will further look into the use of the concept of CE to achieve a SBM. The thesis will also examine how the initiatives related to the implementation of CE can be managed in light of Corporate Governance (CG). Overall, the objective of this research work is to answer the following question:

**Q. How can a sustainable business model create sustainable products?**

### 1.4 Scope and Delimitations

Given the context, this study finds the gap in the existing literature of ST and SBM with CE related practices for the creation of SP. The primary focus of this study is to understand the importance of a SBM for a commercial organization, how it can affect its customers by providing environmentally friendly products. It will also discuss the concept of CE and its relevance to the concept of SBM. The scope of this research is to understand the significance of CE principles in the new business models (Ünal , et al., 2019). The research will contribute in the theoretical understanding of SBM by the implementation of an empirical case, besides, how the SBM could be utilized to meet the interest of external stakeholders (customers) by helping to create Sustainable Products (SP). Also, for large corporations this research contributes for the improvement of methodologies to examine the mechanisms of value creation via SBM. Moreover, this study will contribute to establish a link between the fundamentals of CG and Stakeholder Theory (ST) and how they can help to meet the interests of stakeholders in a modern business environment.

With regard to this research, a delimitation is made concerning the type of organization in focus i.e. a large and mature company is the subject matter. Small and medium sized companies are out of scope of this research. Because in small and medium size companies, key authorities of the businesses are taking part in operational activities like manufacturing, selling, marketing and advertising rather than the strategic activities which lead towards attainment of goals, objectives and vision in particular. Moreover, the reason of the non-choice of any small or

medium size company is that sometimes in those companies there is absence of systematic business approaches, formal procedures and implications regarding sustainability related activities. However, this does not mean they are not working for sustainability, but it becomes hard to find sequential data related to sustainability concerning them. Therefore, the research could be well conducted in context of a company which has clearly defined its SBM related objectives and initiatives and has sufficient data and historical references to evaluate progress on those initiatives over time. Another reason to consider a large organization is that it has better structure and policies for their business as well as enough funds to support sustainability activities (Laurin & Fantazy, 2017). Based on the aforementioned criteria, the researcher has chosen IKEA in Sweden as a reference company. It is a large multinational organisation having vast manufacturing and distribution centres around the globe and one of the pioneers that started working for sustainability (Laurin & Fantazy, 2017). Moreover, the study does not cover for change in demographics, taste and food preference of the population because it requires quantitative data and hence is not in the scope of this study.

## 1.5 Structure of the Thesis

The thesis is organized into six chapters. In chapter 1, an introduction to the research problem, research question and limitations of the study are provided. These will demonstrate the aim and scope of the research. Following that, in chapter 2, the theoretical framework is presented. This framework will include important terms and concepts such as Business Model (BM), Sustainable Business Model (SBM), Circular Economy (CE), Sustainable Products (SP), Corporate Governance (CG) and Stakeholder Theory (ST). Chapter 3 presents the research methodology for data collection, and the data analysis procedure. Later on, chapter 4 presents the empirical data of the subject company, IKEA. Chapter 5 presents the analysis of empirical data based on theoretical chapter. Moreover, the discussion is carried out to compare the results of this study with the results of other studies. Finally, conclusions are drawn in chapter 6.

## 2 Theoretical Framework and Literature Review

The theoretical foundations of this research lie in the theories of SBM, CE, CG, and ST. The researcher aims to understand the relationship between a SBM and creation of SP for customers with a primary focus on CE theory. These concepts will be analysed in context of a commercial organization to understand how SBM helps to meet the interests of customers of a commercial organization.

A comparison will also be made between a conventional BM and SBM. The concepts of CE will explain the characteristics and significance of a SBM, how it helps to create SP i.e. the value proposition of products for customers. It will then discuss the importance of these products for the external stakeholders (specifically customers) of the company in the light of ST.

### 2.1 The overview of Sustainable Business Model (SBM)

The research will contribute in the theoretical understanding of SBM by the implementation of an empirical case, besides, how the SBM could be utilized to meet the interest of external stakeholders (customers) by creating SP. It seems quite necessary to provide the underpinning concepts of BM before presenting SBM. Because it is the traditional concept of doing business.

#### 2.1.1 Business Model (BM)

BM provides the grounds on which organizations implement their business strategies in a structured way for the operational process (Osterwalder & Pigneur, 2002). Teece (2010) defines BM as the way in which a company organizes a framework to meet the needs and desires of its customers and generate profits for itself.

BM simply can be described as how organizations are doing business (DaSilva & Trkman, 2014). It consists of three basic elements i.e. *value proposition*, *value creation & delivery* and *value capture* for business in the context of resource circulation (Oghazi & Mostaghel, 2018). *Value proposition* is related to the product offering and segmentation of customers. According to Boons and Ludeke (2013), *value proposition* is related with the final product and services which ultimately contributes towards the economic stability in monetary terms. On the other hand, *value creation & delivery* is dealing with usage of resources, value chain and production processes. Beltramello (2013) and Teece (2010), both considered *value creation & delivery* as a core of business model. In the process of *value creation*, a business may excel its competitors by limiting the chances of growth, profits and sustainability for other businesses. Lastly, in value process comes the *value capture*, which seeks the ways to increase more profits through the initially created value from its end consumers (Beltramello, et al., 2013). The *value capture* is concerned about the cost structure and revenue model (Teece, 2010).

#### 2.1.2 Sustainable Business Model (SBM)

To bring sustainability into the business either it is niche or mass - there is a need to assure positive effects (both internally and externally) which do not harm the natural environment and society (Stefan, et al., 2016). For sustainable business strategies there is a need to bring innovation into the business model (Geissdoerfer, et al., 2018). As innovation is something new which generates value and provides satisfaction for specific needs and expectations (Tidd & Bessant, 2018). Companies that take sustainability as a core business concept apply

innovation practices to achieve competitive advantage (Geissdoerfer, et al., 2018). BM innovation is all about the ability to rethink current business to find new revenue streams and maintain competitive advantage (ibid). It can be done either by improving an existing BM or by looking for new unique ways to provide value (Tidd & Bessant, 2018). Moreover, to create a sustainable innovation, a new SBM is required to bring *social, economic and environmental* innovation (Boons & Lüdeke-Freund, 2013). Where the *social factor* includes sharing and reusing of resources, while for customers and organization the *economic factor* can reduce the costs to pay for resources by reusing, recycling and reducing material, whereas the *environmental factor* involves less resource use and minimization of waste (Oghazi & Mostaghel, 2018).

In the organization a whole fundamental change process is required to bring sustainability (Ayuso & Argandoña, 2009). Schaltegger et al (2016), identified that the success and failure of any organization is depending on its BM. The goal of improving the relationship with society and the environment endorse corporates to change all strategies, practices and tactics. These changes could be possible by a shift in conventional BM to SBM as the SBM provides opportunities for corporations to make a better utilization of resources to reduce cost and increase profits (Camilleri, 2017). According to Oghazi & Mostaghel (2018), unlike the traditional BM, in the SBM all stakeholders are included in the SBM, as well as all businesses and the environment. And to achieve the target of resource preservation by having a strategy focusing on *reducing, reusing and recycling* of resources, the internal and external participation is important. Thereby, the role of stakeholders is crucial in defining innovative sustainable solutions for the sustainable development (Oghazi & Mostaghel, 2018).

The sustainability initiatives can be implemented by incorporating them into the strategies of the organization (Carter & Rogers, 2008). All the previously found studies collectively agreed to conclude that SBM which involves all its stakeholder to promote and participate collectively towards the better future, is the modification of traditional business model having included some key factors i.e. rules and objectives that contributes towards sustainability or either combine sustainability along with *value proposition, value creation & delivery, and value capture* (Bocken, et al., 2014). These three elements of BM are solely designed to produce and oversee the effectiveness of businesses and could be seen in the Figure 1 below.



Figure 1: Conceptual business model framework. (Bocken, et al., 2014)

To give a background of sustainability the main components of a SBM that initiate from basic BMs requires a more refined and varying definition. First of all, in value approach, *value proposition* is not essentially concerned with a mere product/service rather it is more related with the either side linkage between the business and its customer and hence, it is deemed as a strong and effective approach in value process (Boons & Lüdeke-Freund, 2013). Boons and Ludeke (2013), identify distinctive features of SBM which comparatively makes it more effective than the tradition al model. Also, SBMs incorporate the idea of using material products and services in such manner that it lessens the harmful impact on the society and overall

environment. At the end, Boons and Ludeke (2013), suggest that ethical values should also be reviewed alongside monetary values while formulating SBM. When it comes to societal and ecological aspects, it has been specifically assessed that SBMs are significantly correlated with generating highly satisfactory outcomes and minimizes the chances of destructive practices. According to Osterwalder and Pigneur (2010), the *value proposition* in a value cycle is related to the offerings of wide a range of products and services that are designed particularly for a target audience for the purpose of providing potential customers with more satisfaction (Osterwalder & Pigneur, 2010). They believe that *value proposition* plays a vital role in customer turnover as it serves as a medium of ultimate customer satisfaction and helps the company to establish a strong brand position. Interestingly, every *value proposition* differs from the rest for it is designed differently or includes potential products to serve according to the needs and demands of target audience. They further classified *value proposition* into two types. One is innovative in nature while other is traditional or existing offer. The innovative offerings are quite often designed with more technological advancements and ultimately provide more convenience, superior service and ease, and affects the markets significantly. Contradictorily, a value proposition of existing market offerings is based on traditional approach of doing business and attracting customers with the inclusion of different characteristics and benefits of a product already available in the market.

Bocken et al (2014), conclude in their study that SBM subsequently seeks and focuses on the idea of bringing and excelling the competitors through *value creation & delivery* on the managerial level. They also suggest that *value creation & delivery* in value approach plays a vital role and have more extensive scope and therefore requires to incorporate the key factors i.e. customer's involvement and supply chain in the framework. In order to fulfill valuable customers' needs and demands with the purpose of providing them with ultimate satisfaction, companies reach out to such customers by adopting and formulating smart strategies and implementing creative ideas with the addition of using various components and features in their products and services. The nature of value can be in qualitative or quantitative terms. Quantitative value involves price and duration of delivering products to customers, while qualitative value is related to product layout, design and feedback from its customers. Considering all these mentioned factors may help and lead the company towards the process of *value creation & delivery*.

Boons and Ludeke's (2013), findings suggest that a positive relationship of cost and benefits is found between all the participants and factors involve in the value process. Besides, unlike traditional BM, the *value capture* element in SBM is more valid and reliable measure to provide a thorough insight about the idea of value. Moreover, SBM is expanded by the theory of observing ecological and societal value.

Abdelkafi and Täuscher (2016), state that SBM is not meant to create value for customers only but considers ecological and social aspects as well. Furthermore, Geissdoerfer (2018), believes that there exists a relationship between all the key components of SBM and the involvement of the customers, owners, employees, government, suppliers and unions. SBM assists almost every kind of business to attain its desired long-term goals. The fundamental concept of having value in business is to create a worth of product and services in such a way where customers are always willing to purchase them. For this purpose, a majority of marketing operations are devoted to the sole reason of identifying what customer really prefers and trends in the market in order to generate value in the business (Geissdoerfer, et al., 2018).



### 2.1.3 Circular Economy (CE)

To execute SBM it is quite relevant to include CE activities into it (Antikainen & Valkokari, 2016). The focus of the CE is to use less resources and try to utilize the resource as long as possible. The concept of CE contains many different ideas which eventually bring together the sustainable system. According to Geissdoerfer et al. (2017, p. 759): “*The circular economy is a regenerative system in which resource input and waste, and emission leakage are minimized by closing material loops. This can be achieved through long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing, and recycling*”. That means CE is directly related to sustainability as it encourages to save costs and use the raw material, energy and resources in efficient manners.

The philosophy of CE comprises of three characteristics mainly known as 3R's i.e. *Reduce*, *Reuse* and *Recycle* (Ünal, et al., 2019). The *Reduce* principle concerns the minimal possible usage of primary resources and generate energy from waste. It is basically energy efficient. The *Reuse* principle concerns the first consumption of the product and then to bring it in utilization for other applications like resell, repair or share instead of disposing of the product and pollute the environment. Finally, the *Recycle* principle deals with the processing of post-production waste and post product consumption while incorporating heavy technology and procedures to produce further products from the material to keep environment clean and pure by contributing towards economic growth (ibid).

Bocken et al (2014), presented three approaches to attain these principles (3R's): one is closing resource loops through recycling. The second is slowing cycles of resource use by extending product life (through durable design, sharing schemes, etc) and the third one is narrowing the resource loop through minimization of resource use (Bocken, et al., 2014).

Findings of Tukker (2015), reveal that CE ensures the continuity and simultaneously enhances the productivity of the resources by using recyclable material in manufacturing processes. CE turns out to be a useful source for businesses in terms of gaining profits, maintaining business credibility, minimizing cost of production, value generation, proactiveness and beneficial to business environment overall.

In accordance with the same belief, Schaltegger et al (2016), find that CE positively correlates with sustainability. It promotes and support the idea of sustainable business practices and interest among people as well as assists legislators to formulate environment friendly policies and rules to be implemented and followed by businesses.

### 2.1.4 Benefits and Challenges of adopting SBM

The study performed by FORA (2010), encourages companies to ensure the implementation of potential SB framework and designing SP and services. SP not only reap several financial gains but also lead business towards obtaining competitive advantage. Incorporating these practices, the overall cost of production could be reduced when lesser resources are used in the production process. For instance, when companies collaborate with other companies for the sake of producing SP for mutual benefits, waste of one company can be utilized by another company to produce other products, therefore leading towards cost reduction. Moreover, doing so, not only shared knowledge of businesses is enhanced but also the demand for technological advancement increases. Hence, providing an opportunity to the companies to tap into international markets (Beltramello, et al., 2013).

According to FORA (2010), and Bowden et al (2010), the implementation of SBM and vigorous production of SP could support businesses to promote their goodwill as a responsible business. Growing awareness of SP with more customers and implications of industrial regulations are encouraging companies to achieve competitive advantage.

However, there could be challenges related to the production of SP on the commercial front. One of the major challenges could be to understand whether SP can fully align the interests of shareholders versus the customers. There are also concerns that no universally accepted scale is established to evaluate the true value creation of SP in a commercial scenario (Beltramello, et al., 2013).

Also, researches carried out previously have shown that the execution of BM, based on the sustainability aspect, is quite challenging and usually involves various obstacles to fully implement the SBM. These challenges could be classified as *internal* and *external* barriers (Beltramello, et al., 2013).

Carrillo-Hermosilla (2009), defines *internal* barriers as the conventional approach of doing business. The conventional BM approach is generally more prevalent in companies where the management have insufficient skills and expertise concerning SBM, poor coordination among different departments of the company and short sightedness/inability of management to look into solutions and alternatives. One reason for not switching to SBM could be lack of research and development in SP.

In Confino's opinion (2011), a majority of the businesses lack required resources to bear the cost of executing a specific plan or strategy and hence, they are unlikely to be in a position to afford any risk for the sake of gaining unseen and unexpected advantages. Which means those businesses cannot afford the charges caused by the implementation of SBM.

Studies conducted by FORA (2010), and Tukker (2004), identify another *internal* barrier which complicates the process of producing green products i.e. organizational boundaries. Sometimes, within an organization certain limits are set in which funds and rewards are allocated for specific domain and other factors remain neglected.

Tukker (2004), and Carrillo-Hermosilla (2009), have identified various other factors which hinder the growth and production of SP. These factors could be classified as *external* barriers. Some of the major factors are:

- Lack of potential customers and poor market research
- Lack of government support for the production of SP
- Uncertainty on the success of SP
- Financial constraints and shortage of additional investments to support the sustainable development process (Confino, 2011)
- Concerns on customers preference and attitude towards SP (Martin, 2009) (Meenakshisundaram & Shankar, 2010). For instance, customers accustomed to using fossil fuels-based cars may not particularly like the electric cars.

Confino (2011), suggests that among all these constraints, investment is the major one as business creativity and growth is dependent mostly on investors/shareholders. It has been noticed that investor's contribution can greatly influence business activities and hence, their lack of interest in a SP development process may result in creating a hurdle to bring product improvement on the sustainability front.

Martin (2009), Meenakshisundaram and Shankar (2010), have also emphasized the customer behaviour and attitude as another factor that affects the implementation of SBM in order to promote the production of eco-friendly products. For instance, people addicted to purchasing luxury brands/products which comparatively offer more features and functions may not be interested in ordinary product offerings with less features.

### 2.1.5 Previous research on SBM

Bermúdez and Schneider (2018), attempt to consolidate the transition from BM to SBM. The findings were classified under four categories in line with their relationship to each SBM element. The four categories were *value proposition*, *value creation & value delivery* and *value capture* and dimensions affecting the whole SBM. In *value proposition*, the challenges related to understanding customer requirements and raising sustainability awareness in customers were discussed. In *value creation & value delivery*, it was discussed that the culture and company network play a critical role in the transformation process. Therefore, increasing awareness about sustainability across the organization and supply chain is of critical importance. In *value capture*, the researcher suggests taking a long-term perspective based on stakeholder needs. It also suggests seeking for new sources of income is important, however, performance should not only be measured based on financial results, but social and environmental aspects should also be measured. Lastly, dimensions affecting the whole SBM suggest that to overcome the challenges related to overlapping regulations and delay in legislative adaptation, companies will need to be more proactive in public consultation processes. It also suggests working in collaboration with authorities, other companies and NGOs can significantly help to achieve the sustainability goals.

In the study '*Closing the Loop: Exploring IKEA's Transition to the Circular Economy*' the researcher has made a comparison between linear economy and CE and how the linear model of production can become unsustainable in the long run mainly due to higher opportunity cost of resource extraction (Seidel, 2018). The researcher has also referred to the speed of resource depletion and waste generation due to rapidly growing population and fast depleting resources. The researcher finally concludes that CE provides a sustainable method of production and consumption of goods. This observation has been discussed in contexts of many large companies like Desso, Walmart, Marks & Spencer. It is further discussed in detail in the context of IKEA to elaborate how IKEA is transitioning to CE. It also highlights the fact that further collaboration among the companies will support the transition to CE.

In the report '*Investigating The Move Towards Circular Economy for Consumer and Retail Companies How can PLM support circular business processes?*' the researchers have emphasized the fact that the population of the world is growing fast and therefore the natural resources are rapidly being consumed (Lindfred & Nordeld, 2017). This phenomenon is considered as a state of Anthropocene, a geological situation where the extreme use of natural resources could disrupt the whole planet's nutrient and energy flows with human impact on all ecosystems. The researchers suggest the solution to a sustainable use of resources could be in CE. However, this transition towards CE could be managed by product life cycle management. The researchers used the data mainly from 12 textile companies. Based on a qualitative review an attempt was made to understand how a change in processes, tools and information can support CE model. They also discuss the barriers to CE such as policies, consumer trends, corporate culture, change management, capital requirements and risk management. The researchers conclude that CE is gaining traction in the retail and consumer industry. And this transition to CE is most effectively addressed through product life cycle (the entire life cycle of

a product from inception of product to product disposal) management. However, it highlights the challenges related to the lack of reliable sustainability information for decision making especially in the design and end-of-life phase of a product. To fulfil this gap, the researchers suggest the enablers such as sustainability index and scorecards.

In '*Measuring Circularity and Customer Satisfaction of Product-Service Systems at IKEA*' the researcher discusses how the linear model of economy is causing pressure on the natural resources and suggests that for real economic growth a transition should be made to CE (Togård, 2016). The aim of this research was to create two models to measure and evaluate circularity and customer satisfaction of products of IKEA. The researcher proposes the use of model for measuring circularity in retail sector. This model is based on the principles of CE and can help measuring the circularity of products. To measure the customer satisfaction, the researcher proposes the use of questionnaires for customer behaviour and attitude towards products. However, these models should be customized based on different markets and products with applicable criteria.

## 2.2 Sustainable Products (SP)

Businesses can survive in the long run only when they incorporate ecological and societal aspects and also consume less natural resources while producing their products (Kammerl, et al., 2015). However, developing ecologically sound products is still not a prevalent practice even though companies are aware of the fact that today's customers are more concerned regarding these characteristics of the products (ibid). One of the reasons why companies seem reluctant to practice this CSR activity is that it requires an extra investment, enhanced techniques and procedures to design environment friendly products. Besides, SP generally involves support by the government, legal criteria and favorable marketing situation.

There is a likelihood for companies to design environment and human friendly products more feasibly without requiring any extra resource and investment if they incorporate the very element of sustainability at the initial stage of production (Garetti & Taisch, 2012). Thus, companies should thoroughly examine the factor of sustainability prior to the development of product and formulate strategies accordingly. The explanation of SP can be seen with the help of this definition, "*Sustainable products are those products providing environmental, social and economic benefits while protecting public health, welfare, and environment over their full commercial cycle, from the extraction of raw materials to final disposition.*" (SPC, 2016).

However, there is a growing concern of customers regarding a product's ecological and societal impacts yet price is the key factor that particularly influence the customer's buying decision (Kammerl, et al., 2015). Therefore, a balanced approach between cost and profit requires to be adopted while incorporating sustainability.

The concept of Cradle to Cradle presented by McDonough & Braungart (2001), shows the products should be designed to be used, recycled and reused. According to them the products should be designed on the basis of three principles i.e. *to eliminate waste, use renewable energy and celebrate diversity* (local production and supply chain).

Bocken et al. (2016), addressed the product design based on circular economy strategies which are slowing resource loops (by reusing, repairing and remanufacturing in order to increase the product life), closing the resource loop (by recycling) and narrowing the loop (by reducing the usage of material) (Bocken, et al., 2016). These strategies help to attain the 3R's (*Reduce, Reuse and Recycle*) and hence make it possible to provide SP.

Various studies have shown and concluded that SP are not harmful or have any destructive effect on either society or environment. Findings of the studies also reveal that the development of SP is not about the mere usage of products but all the other aspects, consequences and influence of the product, from development to expiry, require to be investigated thoroughly (Kammerl, et al., 2015).

A study conducted by Garetti & Taisch (2012), shows the buying behavior of people. They reveal that a majority of the people is concerned about purchasing SP. Furthermore, their findings suggest that, existence and availability of eco-friendly products should be in excess in the markets in order to decrease the sale of unsustainable products. As Beltramello et al (2013) explains the usage of SP provides better economic and environmental benefits by utilizing less resources and diminishing emissions and waste.

According to Garetti & Taisch (2012), more and more companies should come forward and take part in CSR for the purpose of business growth and sustainability. This cannot be done by paying more attention to a specific component or business practice rather it requires a thorough and comprehensive approach which combines all the aspects including technological advancements, consumer behavior and business framework in the process of developing SP. They also claim that companies that incorporate the three key components of sustainability alongside modification in their BM are not only able to cater a number of diverse customers according to their needs and demands but also establish strong business worth and reputation in the market on the basis of these CSR activities (Garetti & Taisch, 2012).

Osterwalder and Pigneur (2010), reveals some major characteristics of value creation process in their study. According to them, on the basis of following distinctive features in environment friendly products and services, a business can outperform its competitors and serves as a benchmark. These characteristics may include availability and reachability of products and services, ease of use, creative and unique product design, economic price and more advantageous than the other available substitutes in the market. Ultimately, all these features combined together will not only create value but also provide companies a strong positioning of its products and make them more worthwhile and appealing to the customers (Osterwalder & Pigneur, 2010).

## 2.3 Interest of Customers

To determine the importance of SBM to meet the interests of external stakeholders specifically customers, it seems appropriate to explain ST along with the theoretical grounds of CG.

### 2.3.1 Corporate Governance (CG)

The term Corporate Governance (CG) refers to the system in which corporates control, direct and manage the responsibilities of executives and distribute the rights among different participants (such as the board of directors, shareholders and the other interest groups) in the corporation (Ayuso & Argandoña, 2009). It focuses on the responsiveness and ethical practices in the business. The shift in companies' attitude towards sustainable activities could be incorporated by the strategies adopted by the internal CG. Tirole (2001, p. 4) presented the definition of CG as "*The design of institutions that induce or force management to internalize the welfare of stakeholders*". CG is a system which presents the structure through which management, directors, shareholders and stakeholders address their responsibilities (Mousavi, et al., 2013) and helps the organization to implement the rules and procedures for decision

making in the organization's affairs. It provides the grounds for better utilization of resources by adopting sustainable practices in the BM. CG is not to manage the operations of the company but it helps to mitigate risks, enhance profit margins by promoting accountability and supervision of directors and contribute in sustainable activities by increasing value for stakeholders (Mousavi, et al., 2013). A good CG-structure leads towards a stable corporate system and involves CSR practices into the BM. CG enhances the relationship between internal stakeholders (i.e., shareholders, workers, employees, managers, the board of directors, investors), and the external stakeholders (i.e., customers, suppliers, regulators, investors, suppliers, society, nature) (Ayuso & Argandoña, 2009).

### 2.3.2 Stakeholder Theory (ST)

ST provides an opportunity to include ethical values in CG strategies (Abid, et al., 2014). In 1984, Freeman detailed the ST of organizational management and business ethics that discusses the morals and values in managing an organization (Freeman, 1984). To achieve corporate goals this theory helps management to fulfil their responsibilities. Since the 1980s the theory has gained a lot of prominence with scholars around the world to question the sustainability of focusing on shareholders' wealth as the prime objective of business (Freeman, 1984).

The ST assumes that the interests of various stakeholders can be balanced or compromised against each other that means not only value is created for shareholders but for all stakeholders (Reed & Freeman, 1983). Freeman defined the term stakeholder as *"any group or individual who can affect or is affected by the achievement of the organization's objectives"* (Freeman, 1984, p. 46). He also identified and modelled the groups which are the stakeholders of a corporation.

Stakeholders can be divided into two types i.e. internal and external. Internal stakeholders, which can also be known as primary stakeholders, comprise of those who have direct stake in the company success (Rouse, 2017). These are the individuals or groups who are inside the company, e.g. employees, managers, board members, donors and investors. Whereas external stakeholders, which are also referred as secondary stakeholders, are the outside entities which are indirectly affected by the company's actions and decisions, e.g. customers, suppliers, government agencies, creditors, labour unions and community groups. Figure 2 demonstrates the stakeholders in an organization according to their type.

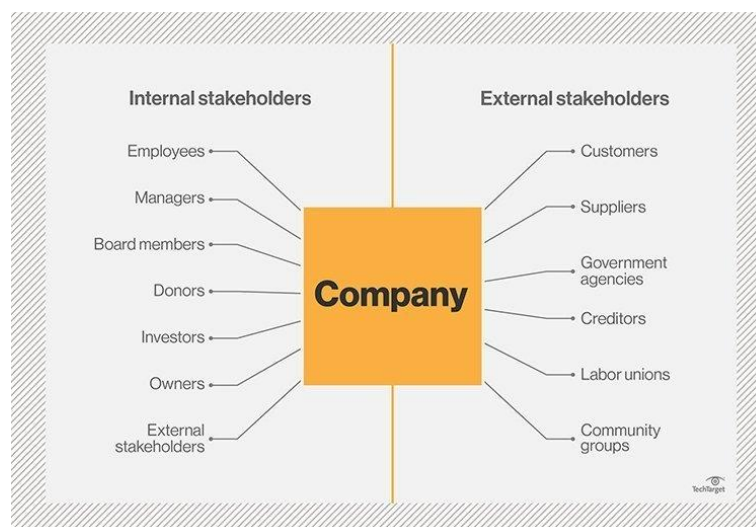


Figure 2: Stakeholders (Rouse, 2017)

According to the ST the customers interest should be considered in the company's strategy. CSR supports a stakeholder approach to CG (Ayuso & Argandoña, 2009). CSR describes those responsibilities which business has to fulfil whereas ST emphasize to whom the businesses should be accountable (Kakabadse, et al., 2005). Promoting corporate responsibility will improve interaction between the company and the community (Mousavi, et al., 2013). According to António (2007, p. 113) *"the stakeholder model offers the most viable identification of the object of CSR"*.

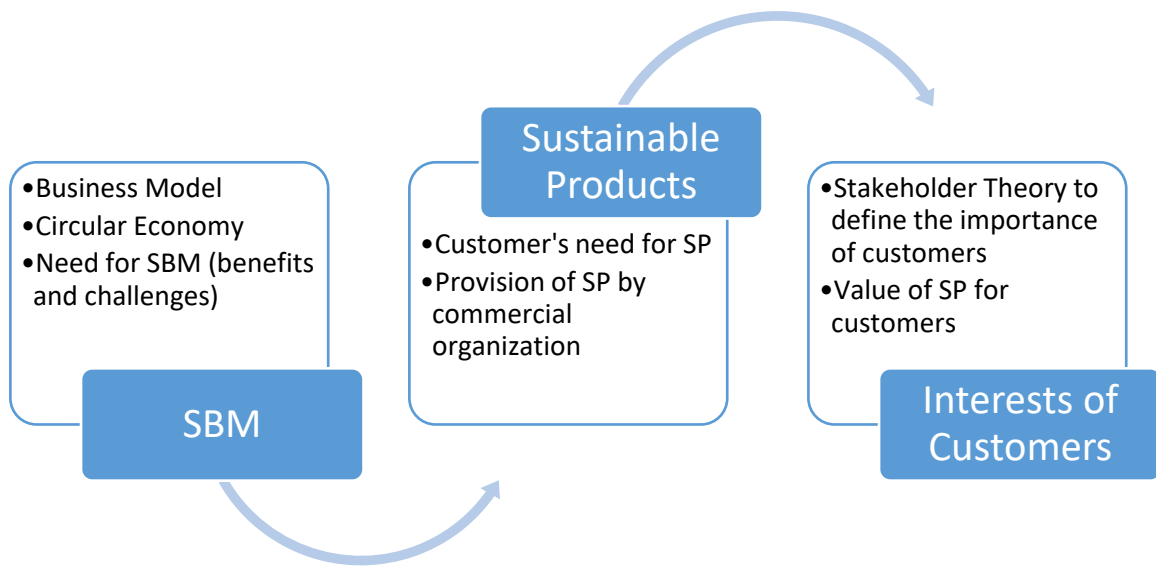
To be capable of working successfully, it is important for the organization to create value and achieve the committed objectives of all stakeholder (Ayuso & Argandoña, 2009). The core idea is to keep the support of all these groups by maintaining the balance between their interests (Freeman & Phillips, 2002). Although each stakeholder has its own interest: employees want a minimum workload but a maximum salary, suppliers want maximum margins, investors look for higher profits, customers seek low prices for their purchases, etc (Freeman , et al., 2020).

In this study, the researcher aims at addressing the impact of a SBM in creating value proposition for customers through production of SP. As SBM can affect many areas of the business, this study is therefore limited to the customer aspect only. Successful organisations identify and understand the needs and wants of the customers (Ferrell, 2004). Their focus is to recognize and provide high quality products for the satisfaction of customers and win their trust and loyalty in reward. According to Ferrell (2004, p. 126) *"Customers are key stakeholders that help establish the firm's reputation and identification"*. Creating value for customers is the way of success for organizations. A SBM can create value for the customer as well as for suppliers and owners (Jennings, 2001). They are the medium of providing financial resources and good will. It is explained as *"Customers provide the lifeblood of the firm in the form of revenue"* (Jennings, 2001, p. 100). The dissatisfaction of the customers will destabilize the whole system.

According to the ST of Freeman (2010), value creation is a process in building up the relationships with all the people involves directly and indirectly in business (Freeman, et al., 2010). The idea that suggests value creation consequences may differ for each stakeholder, is quite common and widely recognized in corporate sustainability framework. Hörisch et al (2014), are of the opinion that it demands collaboration of several stakeholders to ensure the required competencies and resources in order to address the concerns linked with corporate sustainability.

## 2.4 Synthesis of Conceptual Framework

A conceptual framework is developed to be used when analyzing the empirical data and reach results that help answering the proposed research questions of how a sustainable business model can help to meet the interests of customers of a commercial organization. The synthesis of the conceptual framework is presented below in the Figure 3.



*Figure 3: Conceptual framework. Own illustration.*



## 3 Method

In this chapter the method used to carry out the study is presented. In the start the research philosophy is explained followed by the research design. Then the method of data collection and data analysis are described along with quality criteria and consideration of ethics.

### 3.1 Research Philosophy

According to Guba and Lincoln (1994), the research philosophy refers to the view of *ontology* and *epistemology* which are basically the researcher's perspectives and necessary to be considered before carrying out any particular study. Guba and Lincoln believe that the ontological perspective is one which investigates the existence of something in tangible form known as 'physical reality' and intangible as 'social reality'. The ontological views revolve around the truth of nature that how things lie before us whereas the epistemological perspective is based on perception solely which depends upon one's ability to understand and gain knowledge regarding that particular thing. Both perspectives are evidently related to and helpful in order to determine which systematic method possibly be opted and what other hypothesis are already existed.

### 3.2 Research Design

There are three main research approaches; *inductive*, *deductive* and *abductive* (Bryman & Bell, 2015). An *inductive* approach is related to reasoning as it leads to conclusion after studying and observing the collected material. It is helpful for generating new theory, driven by the data and provide a more systematic procedure for analyzing qualitative data. In comparison, a *deductive* approach means reasoning from a particular theory to general concept i.e. the approach is related to the development of a hypothesis based on an existing theory to derive a research strategy for the testing of hypothesis. In short, an *inductive* approach is more open ended while a *deductive* approach is narrow in scope. In contrast to above, an *abductive* approach is a approach which covers the weaknesses of both inductive and deductive research.

In this study an *inductive* approach will be used because of its flexible nature. The choice of an *inductive* approach was also advocated by Bryman & Bell (2015) who stated that whenever new findings are emerging and new conclusions it could be revised easily (Bryman & Bell, 2015). Therefore, the study design will be highly oriented to the *inductive* approach.

### 3.3 Case Study Design

Case studies are essentially designed to investigate a certain kind of process followed by a systematic methodology under specific circumstances (Adams, et al., 2007). The case-study research approach has been utilized in a wide range of researches. This approach has gained significant traction in recent years simply because it allows for a reasonable analysis of complex phenomenon. The case-study approach is particularly useful in treating subjects within a well-defined context, especially when the subject at hand requires a thorough examination. This approach is an inductive research method which is highly prevalent and useful especially in corporate studies where it is being used with the aim of providing beneficial insights, assessment and thorough study regarding businesses. However, the case study technique is mostly applicable and effective when it comes to find out if any specifically designed method will either work out under certain condition or not. Besides, this can be a compelling tool for any research study in order to investigate the validity of already existing explanations regarding

scientific phenomenon. The reason behind this is that case studies are primarily designed to formulate new theories and findings. Therefore, a case study is incorporated in verifiable data to help in determine the effectiveness of conceptual models of the study. But the drawback of using this approach is that proceeding with the organization cannot be certain as it may delay the results required for study due to the internal changes in organisation.

The case study method can be qualitative in nature according to Yin (2009), because of the fact that the researcher examines a limited framework or sometimes includes more than one case within a limited framework with the help of using different mediums of data i.e. perception, interviews, archives and reports while adopting case study technique.

### 3.4 Data Collection

The data of this study will be collected from secondary sources. Secondary sources means that data collected by other researchers, through primary sources, is available for the use of someone else (Bryman & Bell, 2015). Secondary data can be regarded as high-quality data since it is already analyzed by other researchers. It provides the opportunity to compare the data of past years and offers new ways of interpretation (ibid). Besides, few drawbacks also exist such as secondary data can be of complex nature and difficult to understand. Another problem could be due to the difference in subject matter which means it may not provide the specific answer what other researcher is looking for (Bryman & Bell, 2015).

The outbreak of the pandemic COVID-19 in the start of the year 2020 is the prime reason to collect the data from secondary sources due to the limited social and physical interaction. In this research in order to collect secondary data the literature review is one of the source of data collection. As Given (2008) states the literature review serves as a fundamental source in a study to help finding the existing and related study material to strengthen the understanding of complex issues. Moreover, it intends to provide a theoretical framework to achieve the study's related motives and research questions. Also, it determines the nature of a problem and the methodology of solving it.

A narrative (sequential) literature review is incorporated in this study. According to Allen (2017), the reason that narrative approach of reviewing literature is more qualitative in nature is that it does not restrict or limit that what or what not to be incorporated. Rather, it seeks to identify and cover the previously missing details in order to develop a broader conception regarding the topic.

Inductive reasoning is possibly the relevant methodology in literature review as things start from basic to general which implies that data is initially gathered sufficiently and then on the basis of available data, required patterns are designed to lead towards the formulation of a theory. Therefore, in this study the data collected from secondary sources help formulating a conceptual framework which will provide the answers of research question.

Hence, in order to refine the literature review, scholarly articles written by experts, serves as a major medium to obtain relevant data. Google scholar and Web of Science are specifically helpful to find recent and exceptional journals. Keywords like SBM, CE, CG and ST are being used for the purpose of exploring and to get access towards required material in order to keep this study more specific and relevant.

Moreover, the case company websites, annual sustainability reports and annual financial summary reports were also the sources of data collection. These sources remained useful to be

utilized further in order to support and authenticate this study. The study also considered the previous academic research to explore the favorable effects of SBM in order to meet the needs of customers regarding SP.

Therefore, to make it convenient for the reader the sources of data collection could be divided into three categories i.e. *IKEA's Annual Reports, Marketing Reports and Third-Party/External Reports*. It could be elaborated in the form of table.

*Table 1. Catagories of data collection*

<b>Categories</b>	<b>Sources of Data</b>
<b>IKEA's Annual Reports</b>	Annual sustainability reports and annual financial summary reports
<b>Marketing Reports</b>	Documents from IKEA's website
<b>Third-Party/ External Reports</b>	Research articles, previous academic studies, academic journals and existing literature

The scope of the study is limited to IKEA, Sweden. The limitation to use only IKEA, Sweden was to avoid any contradictions in business strategies based on geolocations.

### 3.5 Data Analysis

There are two known types which are commonly found in literature and widely being practiced in nowadays researches, one is *qualitative* and the other is *quantitative*.

*Quantitative* research relies upon a certain set of systematic methods specifically includes epistemological approach alongside statistics and experiments (positivism) and human perception (neo positivism) by precisely following and setting up already existing data, measurement, and analysis as a benchmark while carrying out an original research (Adams, et al., 2007). This sort of technique can be used in *quantitative* research only as it includes empirical evidences and statistical testing for authentication. *Quantitative* research is a highly prevalent type of research which is being used and applicable in so many fields and studies related to medical sciences, business and human societies in particular.

*Qualitative* research incorporates various conceptual philosophies and ideas followed by a chain of systematic methods and procedures i.e., interpretations and practical considerations. Unlike a *quantitative* research technique, which is often used in *quantitative* data, *qualitative* approach rather comprises of data collection that seek attributes and life experience of people in order to investigate new avenues. *Qualitative* research has been majorly used for ages in discipline like psychology, sociology, history, anthropology, geography, journalism etc. Taking the example of anthropology, where it can be used to inquire about the living style, attitudes, values and traditions of people from various backgrounds. This kind of approach, if applied in any social science discipline turn out to be more helpful in bringing breakthrough changes as it has potential to improve overall lives and betterment of people as well as their economy through in-depth analysis of human and societies.

This research will be highly oriented to the descriptive and *qualitative* approach where literature review will be conducted on IKEAs SBM. Due to the limited access to generate *qualitative* data proposed study was deemed appropriate to be *qualitative*.

One of the most useful features of the case study approach is that it allows data from diverse sources and perspectives to be collated (Almutairi, et al., 2014). By accommodating such diversity on any given problem statement, this approach allows for a unique, yet broad understanding of the problem. The problem of reconciling such diverse data may crop up in any research but case study design has built-in tools to resolve this. One such tool is the pattern matching technique (ibid).

Pattern matching is a powerful technique that is used in case-study design to compare new empirical data patterns with the existing or predicted patterns (Almutairi, et al., 2014). If the new patterns match the existing or predicted patterns, the findings of the study would reinforce the integrity of the research. On the other hand, if the new patterns contradict existing patterns, the researcher must come up with a valid explanation to account for the differences (Yin, 2009). The relation between the mental world or models and empirical models is also reflected in this comparison between predicted theoretical patterns and observed empirical patterns used in case-study designs (Sinkovics, 2018).

Pattern matching is useful for almost all case-study designs and can be used as an effective technique for data analysis as long as its use is in line with the aims of the study. By externalizing these elements, pattern matching allows others to see the quality of the research, the veracity of the findings, the types of assumptions used as well as the entire process of how a research reached certain conclusions and how well these conclusions are supported (Sinkovics, 2018).

In this study the pattern matching technique was used for data analysis which helped to compare the gathered information from secondary sources to the theoretical models (Yin, 1994). Although obvious limitations to pattern matching exist in that mental models may not be fully externalized in most cases, pattern matching is still a step forward towards consciously defining a method that is effective in the design, implementation and execution of research studies across multiple disciplines. By using a clear theoretical base, thorough operationalization and rigorous contextualization, pattern matching ensures that data analysis has fair grounds for accuracy. In the end of the investigation, the approach satisfies the want for thoroughness and accuracy, or relevance and rigor (Sinkovics, 2018).

According to Bryman (2012), the time horizon determines the estimated timeframe for each of the assigned tasks to be done and finished. Generally, there are two domains of time horizon, i.e. *cross sectional* and the *longitudinal*. In a *cross sectional* study, data is collected through pre-defined and pre-determined group or sample population over a set period of time. This approach of answering a research question is useful when data is collected for a specific study over a duration of days, weeks or months and can only be used for a single time. In the *longitudinal* approach, data is collected repetitively for a prolonged period of time, in order to answer the research questions for a particular phenomenon unlike a *cross sectional* study where data can be gathered only at one point in time. In this study the time horizon is *cross sectional* as the time period is determined.

### 3.6 Quality Criteria

In *qualitative* research, quality criteria are necessary to explain the social reality of a phenomenon because of the subjective nature of case study design (Bryman & Bell, 2015). Guba and Lincoln (1994), presented four criteria for good quality and trustworthiness of the study:

*Credibility, transferability, dependability, and confirmability.* Where *credibility* concerns about the reliable source of data collection and analysis in order to achieve true, accurate and authentic results. Therefore, in this study data will be collected from different trustworthy secondary sources in order to compare the authenticity.

*Transferability* certifies that in dept research should be conducted to analyse social phenomenon so that the conclusions possibly applied to other frameworks (Shenton, 2004). So, inclusive work has been done to judge the importance of SBM in order to create SP.

*Dependability* illustrates how much consistency remained in the results when the research will be conducted again with same methods, same contexts and same parameters. Therefore, it is necessary to explain the method of the study in detail so that it will be easier for the successors to follow and replicate over time.

*Confirmability* refers to unbiasedness of the researcher while the interpretation of data in order to avoid unjustified subjectivity of author. Although it is impossible for the researcher to be completely objective because otherwise it will create hurdles to remain on the track of research (Bryman & Bell, 2015).

### 3.7 Ethical Considerations

While conducting a research it seems quite important for the researcher to consider the ethical issues (Bryman & Bell, 2015). Therefore, the research will be conducted with truthfulness and integrity while keeping in view the ethical and moral obligations with regards to data collection, privacy protection and necessary approvals.

The published information and data will be used and related with due diligence and authenticity of the source. The data collection of this study is based on published material which is the formal source of information available publicly as well as through authorized access provided by SLU library to scientific research and journals. Therefore, ethical measures are fulfilled already.

To ensure impartiality and objectivity in the research, the author has consulted with the supervisor through meetings, discussions and sharing of information. Lastly, the purpose and scope of the research will be adhered to with objectivity and impartiality.

## 4 Empirical Background and Findings

This part of study will present a background and overview of a commercial company, IKEA. The data was collected about the company through secondary sources. The extent of data collection was limited to its BM and SP within the context of the research question. The theoretical framework was applied on this data and the literature review was conducted to understand the relevance of theoretical framework in a real business scenario. This data also forms the basis to provide useful insights about the suitability of the company's BM and its value proposition to the customers.

### 4.1 IKEA the Company

The Swedish company IKEA set its foot back in 1943 through an entrepreneurial firm started by young 17 years old Ingvar Kamprad, with the aim of improving its customers' lifestyle by providing products at affordable prices. IKEA stands for Ingvar Kamprad (founder's name) Elmtaryd (founder's farm name) Agunnaryd (hometown of founder) (IKEA, 2019). The organization has become a famous multinational brand for home accessories, kitchen appliances, and home furnishing items.

IKEA operates in more than 42 countries. It has more than 70,000 employees worldwide. Out of the total staff, 59,000 are serving in Europe only (Tengblad, 2018). The company is not listed on a stock exchange and works under a foundation that has proprietary rights via the INGKA holding company operating in the Netherlands (ibid). IKEA's major and prominent business is distribution and retailing. Most of the company's operations and concerns are related to distribution and retailing. IKEA outsources part of its retail activities. Some of its production is also outsourced through its subsidiary Swedwood (Tengblad, 2018).

The IKEA group of companies is run by the Interogo Foundation, having Inter IKEA Systems B.V., IKEA of Sweden (IOS), IKEA Supply, and IKEA Industry, as a part of the foundation. IKEA follows a franchise system globally. Most of the stores work under the INGKA Group (IKEA d, 2016). The franchise system of IKEA can be seen in the Figure 4 below.

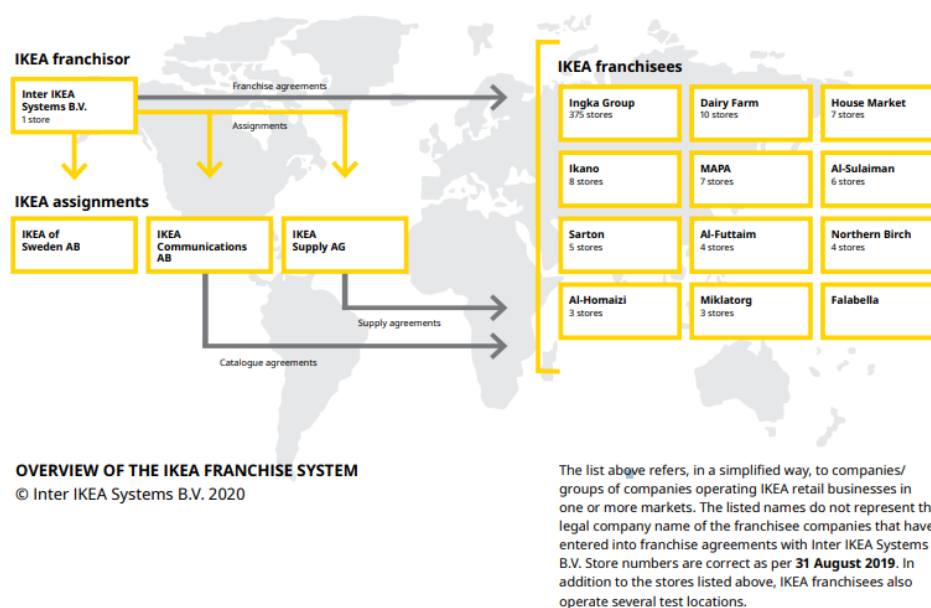


Figure 4: Overview of IKEA Franchise System (IKEA h, 2019, p. 8)

Back in 2016, IKEA decided to reform and re-structure its management structure in which few rights and ownership of different manufacturing components which particularly include product layout, supply chain and IKEA production were given to Inter IKEA Holding B.V (Szerakowski, 2017). Areas involved in the value chain process, like collection of unprocessed material and delivery of finished goods, work directly under IKEA. All major activities are controlled by IKEA Sweden. IKEA Sweden also carries out research analysis and development.

The data for this study was collected from three secondary sources i.e. IKEA's annual reports, marketing material and third party/external reports.

## 4.2 Empirics from IKEA's Annual Reports

Empirics collected from IKEA's annual reports can be seen in following subheadings.

### 4.2.1 The Business Model (BM) of IKEA

IKEA aims to fully implement SBM and pledges to be completely environment friendly organization by 2030. According to the company, IKEA's first and foremost objective is to provide a majority of people with such a lifestyle which is beneficial for them and the environment. IKEA is striving to be the biggest ecological company. To pursue this vision of transformation worldwide, following three major aspects have become part of their SBM (IKEA a, 2018).

#### **Healthy & Sustainable Living:**

This aspect helps IKEA to remain focused on providing and encouraging masses to improve their lifestyle and livelihood by implementing ethical practices at the core of their BM.

#### **Circular & Climate Positive:**

With an ambition of becoming a 100% circular and ecofriendly organization by 2030, IKEA implemented SBM and modified their process and procedures of manufacturing to promote CSR and to bring a pleasant environmental change as a whole.

#### **Fairness & Equality:**

IKEA aspires to be a people and environmental oriented company. Therefore, the company claims to have implemented sustainable and ethical practices in their role as an employer as well as a business.

### 4.2.2 Circular Economy (CE) Related Activities

IKEA takes pride that they have won a major award at The Circulars, an award program which was created with the venture of Forum of Young Leaders (FYGL) and World Economic Forum (WEF). The award program was designed to analyze and promote the facets of CE movements and considered both the organizations and individuals as its participants. According to IKEA: "*The circular economy is a new way of looking at the relationship between consumers, products and the companies that create them*" (IKEA c, 2018, p. 4). The Circular Economy 100 (CE100) is a well-known worldwide program provided by The Ellen MacArthur Foundation, which allows and motivates businesses to involve in circular activities for the purpose of sustainable growth and creating more commercial opportunities (Ellen Macarthur

Foundation, 2017). IKEA emphasizes to adopt the guidelines of CE to avoid unnecessary wastage. They claim that they have adopted guidelines stated as under (IKEA c, 2018, p. 5).

#### **Reuse and remanufacture:**

They strive to improve their processes by utilizing used materials to remanufacture the products. This will help to reduce carbon footprints.

#### **Sharing platforms:**

IKEA states they continue to make technological advancements in order to get maximum utilization from valuable items which particularly involve vehicles, houses, machinery and tools.

#### **Extended product lifespan:**

IKEA takes a circular approach to enhance the quality and durability of existing products through the repair and upgrading of existing products.

#### **Product as a service:**

IKEA's BM promotes selling of service instead of selling a product. Their product service system includes different pay models where revenue is generated through subscription and intangible services.

#### **Circular materials:**

IKEA's CE supply chain mechanism comprises of using raw material which is sustainable as well as eco-friendly. The material should be useable in remanufacturing process of other products so as to reduce the overall cost and increase productivity.

Figures extracted from IKEA's sustainability report 2019 reveal that IKEA's 60% product range is manufactured with renewable materials and more than 10% used recycled material. In the fiscal year 2016 IKEA used 24% renewable and/or reusable material to produce plastic products (IKEA h, 2019). The consistent efforts brought the percentage up to 40% by the end of 2019 (IKEA e, 2019).

With regards to sustainable sourcing of raw materials, in 2019, 100% of cotton and 91% of wood used was originated from sustainable sources which was 85% and 77% respectively in 2017 and 2016. Similarly, great progress can be seen in recycled polyester where 59% of polyester used in textile products is recycled. In 2018 it was 24% whereas in 2017 there was 10% recycled polyester used. To develop the production line, Inter IKEA decided to invest 200 million euros. 2019 is the first year when the footprints from production is decreased by 8%, as compared to 2016 (IKEA h, 2019). These initiatives bring positive impacts in IKEA's business activities.

#### **4.2.3 Customer Relationship by Following Stakeholder Theory (ST)**

The retention of strong relationship of IKEA with its customers benefited the organization to win the *Accenture Strategy Award* on 22 January 2018, held in Davos, Switzerland, where IKEA was recognized and evaluated by its transition towards SBM by product development,



identification of better sources to procure material and development in logistics and supply chain model (IKEA c, 2018, p. 11). In 2018, on the 50th annual meeting of World Economic Forum at Davos, Jesper Brodin, the Chief Executive of IKEA, said that *“If the last decades were about mass consumerism, now we are getting towards mass circularity. You build in an economic incentive, you build in a consciousness with consumers that they don’t have to own it [the product], but instead own things collectively in the world that can be shared and recycled”* (IKEA c, 2018, p. 14).

Due to the change and rise in environmental issues, humans are now responsible for dissipation of resources. Previous researches show that developing an emotional attachment with consumer is the best strategy to retain them. Marcus Engman, Head of Design at IKEA, addressed during the 2018 Stockholm Furniture Fair about how IKEA aims to focus on consumers’ functional and emotional needs. Consumers keep the products and invest to prolong their life. Development Leader for Circular IKEA Malin says, *“It is so important for the customer to have a story that is connected to a product”* (IKEA c, 2018, p. 13). The way people think about their belongings enriches their affiliation, well-being and sense of peace. Since then, IKEA proclaims that providing environmentally friendly products to consumers without dissipation of resources can bring happiness among stakeholders. This brings a sense of gratification to them that they are not going to be blamed for the wastage of resources as they have chosen a brand which recycles the wastages and does not appreciate the consumption of natural resources.

#### 4.2.4 Sustainable Products (SP)

IKEA states that their philosophy of doing work is based on formulating new strategies according to the marketing trends and customers’ needs and wants (ibid). IKEA recognizes its customers’ interest in its SP: *“Consumers are becoming more conscious about the environmental impact of their choices”* (IKEA c, 2018, p. 7). Apart from strategies, it requires a company to be more innovative and creative through research and development. IKEA upholds that they won customers with high quality and low-priced products. They say their products are durable, well-designed and unique. In their report it is written that *“At IKEA, our furniture and products are our identity. Functional and beautiful but also affordable”* (IKEA c, 2018, p. 24). Several products made by recycled plastic e.g. KUGGIS storage box, TROLLBO pendant lamp, SKRUTT desk pad, TOMAT spray bottle, and GIGANTISK trashcan. IKEA claims, *“For us, it starts with design and ends with sustainability”* (IKEA c, 2018, p. 24). From 2019 new products made from renewable materials are TALRIKA dinnerware and HEROISK children’s eating products (IKEA h, 2019). Here are some examples of SP produced by IKEA.

##### **IKEA PS 2017 Vase**

A marbled vase was made by the designer Lina Vuorivirta when the glass was rejected due to the bubbles and defects in it during production. This idea intimated an ideology that defected products should not be dumped into wastes, rather they can be converted into multiple unique items and their strength can also be enhanced. Lina explained the excitement of a mass-produced item from the product which was dumped in leftovers. As shown in Figure 6.



*Figure 5: IKEA PS 2017 Vase (IKEA c, 2018)*

### **KUGGIS box with lid**

The recycled PET plastic is converted into brand new practical storage boxes. The box was named as KUGGIS box with a lid, as shown in Figure 7. The use of recycled material reduces the consumption of raw materials while giving a new life to existing products.



*Figure 6: KUGGIS box with lid (IKEA c, 2018)*

### **TOMAT spray bottle**

Previously, 100% virgin plastic was used in production of TOMAT bottle. The designing team introduced the sustainable production of TOMAT bottle in February 2017 with 50% virgin plastic and 50% recycled plastic from shrink wrap waste of IKEA Group, as shown in Figure 8.



*Figure 7: TOMAT spray bottle (IKEA c, 2018)*

## SOARÉ place mat

SOARE mat, shown in Figure 9, was produced from the Mekong Riverbank. Water hyacinth which is the basic material of this mat, naturally grows very well along the waterway. The locals harvest and dry water hyacinth and stalk it together to make SOARE place mat as a furnished product. The use of such products brings livelihood to the local community as well as let them continue their tradition.



Figure 8: SOARÉ place mat (IKEA c, 2018)

## IKEA's Range of Products

The total range of IKEA's products is more than 9,500 and 2000 new products are introduced every year (Inter Ikea Group, 2018).

IKEA workshops show people how they are bringing a new life to an old and unwanted product which create an emotional attachment and loyalty of customer with the brand.

Table 2 is a snapshot of IKEA's business growth from different aspects which can be seen below. The data explains that due to the adoption of sustainable activities, there is an increase in the total revenue, retail sales, number of stores, number of co-workers as well as the physical and website visits of IKEA since 2016.

Table 2. Snapshot of IKEA's business

Year	2016 (IKEA i, 2016 )	2017 (IKEA j, 2017)	2018 (IKEA k, 2018)	2019 (IKEA l, 2019)
Number of Stores worldwide	389	403	422	433
Number of Co-workers	183000	194000	208000	211000
Retail Sale (Billion Euros)	36.4	38.3	38.8	41.3
Total Revenue (Billion Euros)	2.2	23	25.5	25.3
Store visits (Billion)	0.915	0.936	0.957	1
Website visits (Billion)	2.1	2.3	2.5	2.8

For more clarification these Figures can be elaborated below in the form of graphs in Figure 5.

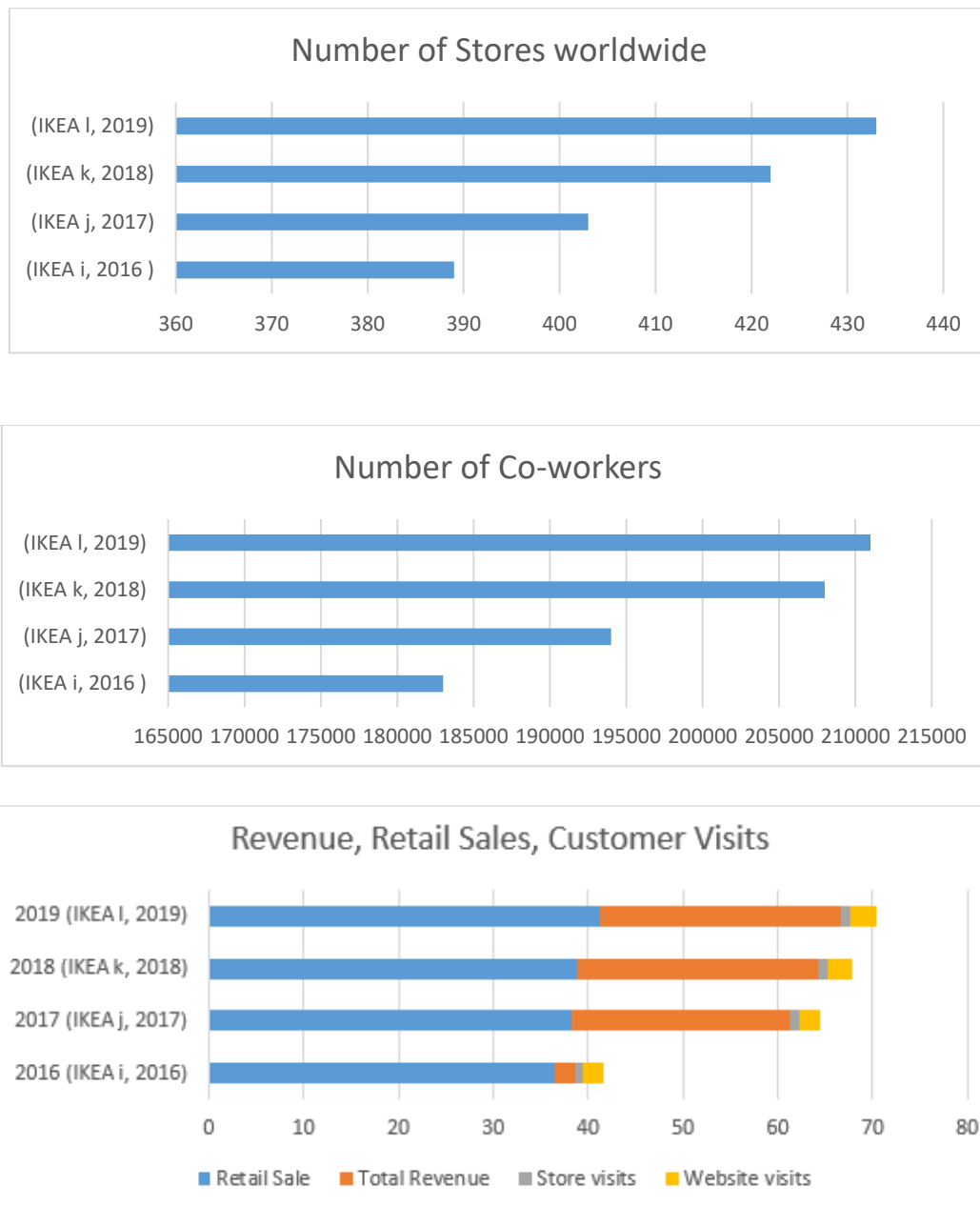


Figure 9: Graphical representation of IKEA Business Growth (Own illustration based on (IKEA i, 2016 ), (IKEA j, 2017), (IKEA k, 2018), (IKEA l, 2019))

The Figure 5 shows a consistent progress of IKEA on a commercial front. It has increased its presence, number of stores, number of employees, revenue and physical & electronic visits to its stores consistently since 2016.

## 4.3 Empirics from Marketing Reports

### 4.3.1 The Business Model (BM) of IKEA

According to marketing report of IKEA (2018), their mission and commitment of improving people's lives as well as the whole environment through CSR, enabled the company to formulate 'People and Planet Positive' (PPP) strategy. IKEA believes that this is the best possible way to equally achieve economic benefits alongside social and ecological motives. While this strategy proved to be quite successful, the company needs to adopt a more agile and

proactive approach in order to achieve its goal (IKEA b, 2018). This strategy had a strong focus on creating value for its customers by taking a SBM approach. According to IKEA “*We want to create an IKEA business model that is sustainable. The IKEA vision, to create a better everyday life for the many people, is our inspiration*” (IKEA b, 2018, p. 4). To ensure the strategy remains effective and aligned with the company’s overall business strategy, it is evaluated on annual basis.

Based on IKEA’s published data on their website, their sustainable business strategy for 2030 is successfully helping them to achieve the goals of PPP initiative (IKEA b, 2018). IKEA proclaims itself as an enthusiastic sustainability adapter by sourcing renewable, reusable and recycled materials. Also, IKEA emphasizes the strong relationship between internal and external stakeholders by considering *social, environmental and economic* aspects. Moreover, IKEA is part of a global network of 100 companies, known as Circular Economy 100 (CE100) which work for the development and transition towards CE (Ellen Macarthur Foundation, 2017). The platform was established by the Ellen MacArthur Foundation for academia, industry and policy makers in order to reduce negative effects on environment by the accomplishment of creating more value and maximum utilization of resources (ibid). The platform supports the framework of global SDGs and provides guiding principles for other companies to introduce sustainable practices in their business activities.

#### 4.3.2 Circular Economy (CE) Related Activities

Contrary to conventional business modelling practices, document from IKEA’s website shows that IKEA believes a shift in BM from being linear to circular, can help the company to remain successful in the long run. Also, the concept of CE will enable the company to continue its business activities without any disruption and scarcity of resources. It will also ultimately lead towards the betterment of whole society (IKEA b, 2018). IKEA claims that it is their culture, norms and values that play a vital role to accomplish its goal towards change (ibid). According to the company, their procedures and way of operating and conducting business activities support the idea of providing better life to millions of people across the world. In this regard, UN’s SDGs came into existence in 2015 that addresses all those issues and challenges a company may come across while adopting and implementing sustainable changes. IKEA claims to following SDGs model which is aligned with the goal, objective and strategies of the company in order to bring a positive change in lives of people globally (IKEA b, 2018).

#### 4.3.3 Customer Relationship by Following Stakeholder Theory (ST)

IKEA proclaims that they encourage a strong relationship between internal and external stakeholders in consideration with all three dimensions of sustainability which are *social, environmental and economic* sustainability. To meet these standards, IKEA has worked through many years for continuous and persistent sustainable growth by sourcing renewable, reusable and recycled materials. IKEA transformed its business framework in 2012 called People and Planet Positive (PPP) strategy. The strategy is focuses on sustainable business activities by considering the SDGs. The sustainability ambition of this strategy is to bring positive change for everyone in long term manners (IKEA b, 2018). The need of designing a PPP strategy arises to help company to establish benchmark and ease the decision making process towards its aim of bringing massive positive social and ecological changes globally (IKEA b, 2018). Moreover, it provides a clear direction to all the stakeholders to stick to the same values and procedures which are highlighted by the company. IKEA believes that alliance and support from their stakeholders is of utmost importance in achieving a meaningful change. Hence, company is

ambitious to promote, anticipate and incorporate creative and bright ideas more than seeking and focusing on perfection to continue the business activities (IKEA b, 2018).

IKEA strongly believes that establishing good relationships with its stakeholder is not just essentially ethical but also paves the way towards their mission of improving the lives on planet earth. The stronger the network between customers, suppliers, partners and co-workers force, the better and effectively IKEA can serve its people on daily basis (IKEA b, 2018, p. 2).

#### 4.3.4 Sustainable Products (SP)

The company has taken an initiative called People and Planet Positive (PPP) to promote its sustainability standards (IKEA, 2019). The vision of this initiative contains three main drivers which are *healthy and sustainable living, fairness & equality, and circular & climate positive* (IKEA a, 2018). According to IKEA, these focus areas promote a sustainable life at home, and strive for resource and energy independence (IKEA b, 2018). To execute the PPP strategy successfully, it is inevitable for the company to produce SP. SP have lesser footprint on the environment. In order to utilize renewable resources and to reduce carbon footprints, Inter IKEA group invested EUR 175 million in product development and innovation (IKEA e, 2019). With this initiative, IKEA claims to provide a more sustainable life at home by achieving a fourfold increase in SP and solutions by August 2020. It will also promote resource independence by sourcing materials from sustainable sources. The company expects to satisfy the customer needs with SP.

On the occasion of IKEA's 50<sup>th</sup> anniversary, a book named '*Democratic Design*' was published by IKEA of Sweden (IKEA of Sweden, 1995). The book is about IKEA's journey to success. It discussed and highlighted the factors that distinguished IKEA from the other companies which are operating conventional BM. According to this book, the company came into existence with the aim of providing, making and raising lifestyle of not just a particular or limited class but for masses. To achieve this vision, IKEA had set a benchmark by incorporating three distinctive components in its products; unique design, enhanced features & characteristics and affordable prices (IKEA of Sweden, 1995).

### 4.4 Empirics from Third-Party/ External Reports

#### 4.4.1 The Business Model (BM) of IKEA

The study of Edvardsson and Enquist (2011), revealed that IKEA's BM focuses on transforming from a *product-based* company to a *value-based* company with the implementation of a SBM. IKEA proclaims that sustainability is not a luxury that someone can afford but it is for everyone to adopt (ibid).

It was observed that IKEA have set an exemplary standard by providing improved services and quality products to its customers as a top priority and taking a challenge of modifying its BM at the same time (Edvardsson & Enquist, 2011). For several decades, IKEA has performed very well as compare to its competitors at international level (ibid). Outstanding customer service and providing better and timely solutions to customers is the depiction of IKEA's ideology and ethicality. IKEA puts a strong focus on value creation for its customers as it proclaims that they never compromised on their customer service even at times when their competitors shifted focus towards shareholder value maximization and resolving their organization related problems (Edvardsson & Enquist, 2011).

In the book '*Global Strategic Management*', it was written that IKEA is one of a kind multinational company and probably the pioneer in improving the overall lifestyle and living standards of people around the world (Ungson & Wong, 2008, pp. 226-227). IKEA is applauded for its futuristic products on affordable price (ibid). IKEA has grabbed almost 5-10% of overall market share of home improvement products (ibid). A former president of the company, Anders Dahlvig, claimed that their brand worth and position in the market is far beyond the actual size of IKEA (Ungson & Wong, 2008, pp. 226-227).

#### 4.4.2 Circular Economy (CE) Related Activities

IKEA is an active member of this international platform (Lindfred & Nordeld, 2017). This alliance of IKEA and CE100 brings forth the idea of Circular IKEA which is based upon enhancing the efficiency and quality of product life cycle by incorporating the maximum utilization of recycled materials (ibid). In this regard, IKEA has also launched one of its projects where the company allows its end consumers to resell or return their used furniture to IKEA which then can be utilized for the purpose of either donation or reselling.

The Sustainable Developer, Per Stoltz, quotes three fundamental standards and philosophy of Circular IKEA, i.e. *customer's proximity and maximum interaction, product layout, and strengthening the drivers of value chain*. Moreover, IKEA actively participates in CSR programs and pledges to make sure the reduction of waste involves in their production processes, and also encourages its customers to recycle the waste using their provided containers and storage boxes in order to ensure green production (Lindfred & Nordeld, 2017). Not only this, the company affirms its goal and objective to produce 90% from waste material and by far it has reached to 78% and rest is retrieved successfully.

#### 4.4.3 Customer Relationship by Following Stakeholder Theory (ST)

According to Szerakowski (2017), IKEA's target audience is not based on particular class, but involves everyone in the society. It takes care of delivery and manufacturing of products according to the marketing trends in order to fulfil customer's needs and desires. Through their strong and effective research and development work, it has been able to identify their customers who are comparatively concerned about pricing. It introduced different promotional offers and particular designs for customers e.g. IKEA breakfast offering (IKEA d, 2016). To better serve their customers, IKEA has designed family loyalty program to strengthen their relationship with customers (ibid). In the Inter IKEA Systems, 10 million new customers become part of this program and in 2016, 100 million members were reported (Szerakowski, 2017).

#### 4.4.4 Sustainable Products (SP)

Products that are good for people can also be beneficial for the planet if they produced by following the principles of CE and hence considered as SP. By using recycled PET-bottles and recycled wood, the team of IKEA in Sweden partnering with an Italian supplier, developed materials for KUNGSBACKA kitchen (an innovative new kitchen with a past life that means recycled woods and plastic is used to make new products) and constructed a bond with customer by introducing creative and sustainable idea. A designer named Iina Vuorivirta at IKEA made a vase with the left over and waste of broken glass products for IKEA PS 2017 collection (where PS stands for post scriptum which is the name of the elite designer collections). Similarly, the rugs TÅNUM were also made with the leftovers of bed linen productions. The ideology of feeding waste production back into a product life cycle and working on CE principles is in focus by IKEA (Togård, 2016).

## 5 Analysis, Results and Discussion

This chapter contains the analysis of the empirical findings presented in chapter 4 along with the discussion. By using the Pattern matching technique, the empirical findings are analyzed based on the theoretical framework presented in chapter 2. Moreover, results of the analysis are presented to find an answer of the research question i.e. *How can a sustainable business model create sustainable products?*

### 5.1 Analysis by using Pattern Matching Technique

The aim of this section is to provide an analysis based on the theoretical framework in context of empirical data. Based on the theoretical framework, empirical data of a commercial organization, IKEA, was collected. The data which is used for analysis can be collected either from primary sources (like interviews, surveys, experiments etc) or by secondary sources (i.e. published academic papers, government document, websites, sustainability reports and records etc). In this study the data is collected from secondary sources. This data is used to establish a theoretical framework in order to analyse the BM of IKEA. Therefore, the three views of IKEA (from IKEA's Annual Reports, Marketing Reports and Third-Party/External Reports) are analysed by using pattern matching technique. The researcher has attempted to identify the key features of IKEA's BM which are shaping its sustainability initiative including manufacturing of SP. It is also observed how the company has performed commercially with the implementation of its sustainability initiatives. Therefore, the analysis aimed to understand whether or not the new empirical findings are in line with the existing patterns. The objective of the study is to provide relevant explanation as to whether the conceptual framework or theoretical basis of the study need to be altered or not (Yin, 2009).

The researcher has first attempted to understand the benefits of a SBM for creating value for the customers of a commercial organization in light of CE theory. It is clear from the theories that SBM can potentially provide a strategy which can enable the company to enhance its *economic* growth while being mindful of the *social* and *environmental* aspects (Oghazi & Mostaghel, 2018). Empirics collected from all the three sources show that IKEA's BM has a strong focus on sustainability with respect to *societal*, *economic* and *environmental* aspects. Regarding *economic factors*, the company has potentially reduced its cost on raw material by maximizing resource utilization as well as lessening the waste output. In terms of *social aspect*, the company tends to improve the interaction between its business and the society by promoting strong relationship with all its stakeholders. Also, resource sharing and reusing becomes a tool of reliability for loyal customers. The *environmental factor* is catered through these two aspects. When resources are more efficiently used, they lead towards less wastage and smaller environmental footprint.

It has been further explored what the role of an effective CG is in the conception and implementation of a SBM. CG ensures stable corporate system (Mousavi, et al., 2013) and provides the grounds to meet the interests of all stakeholders (Ayuso & Argandoña, 2009). The empirics of this study tend to show that IKEA's management structure is aligned with its sustainability initiative to meet the interests of stakeholders. The sustainable business are those which meet the needs of today without compromising the needs of future and create competitive advantage for all stakeholders (Schaltegger, et al., 2016).

The researcher has also used ST to understand the relevance and significance of customers for a commercial organization. She has attempted to understand the relationship between a SBM



to meet the interests of the customers which are one of the important stakeholders of the company. It has been noted that with time more and more customers are becoming aware about the utility and environment friendliness of SP. Businesses that focus on providing SP have better chances of addressing customer needs in the long run. Similar practices were observed from empirics in the case of IKEA. Its BM is focused on providing affordable and easy to use products. Its access to markets worldwide, with an ability to address customer needs in an innovative and sustainable manner has progressively placed it on a strong commercial footing. Its focus on procurement of raw materials from sustainable and recycled resources and creating products which are environment friendly may well have improved their production costs together with maximized resource utilization. This approach also promotes societal and environmental aspects as well as customers' loyalty towards the company. Putting all these initiatives together, the company has earned a decent reputation for providing SP and has emerged as a socially responsible company and has therefore meet the interests of its stakeholders through a SBM.

Analysing the key bits of IKEA's BM by considering the sources of data collection, the researcher has observed the company's focus on three aspects: *reduce*, *reuse* and *recycle*. These aspects are observed in majority of the production processes, product life cycle, product design, as well as the disposal of the product. Other aspects of BM discussed in theories are *value proposition*, *value creation & delivery*, and *value capture*. These aspects are also observed in the SBM of IKEA. *Value proposition* in SBM is related to the product offering and segmentation of customers (Boons & Lüdeke-Freund, 2013). It does not focus on increasing the profit but also on the benefit to the society and the environment. In case of IKEA, SP promote value proposition and generate customers' interest due to their sustainability value. The *value creation & delivery* in IKEA is about dealing with resource use, value chains and production processes in a sustainable manner. A commercial organization's CSR activities help to create a strong network between company and its customers. The *value capture* describes the cost structure, revenue model and target markets (Teece, 2010). IKEA operates in many countries and their products are widely used due to their sustainable method of production, pricing and cost effectiveness. SP offerings form the underlying strength of a SBM and help meet the interests of customers.

Data collected from all the three scenarios presents similar observations about its BM, CE related activities, customer relationship and SP. The researcher has reviewed the key sustainability initiative, the PPP strategy of IKEA and its effect on its commercial success based on its financial indicators and change in number of customers. Based on the information stated in Chapter 4, it is evident that as IKEA has used a SBM to meet the interests of its customers. A successful management of customers' interests is reflected by a consistent increase in company's revenue, number of customers and number of stores worldwide since 2016 to 2019 (as described in the section 4.2).

By comparing the views of all empirical data sources, a repeated pattern was found. This pattern match promotes the idea that a SBM focused on CE and SP can help large organisations add value to the business by enabling them to meet the interests of their customers in a sustainable manner. As patterns have matched, the researcher will stick to the theoretical framework.

## 5.2 Results

The theoretical framework and empirical data are analysed using a research technique, called pattern matching. The purpose of this technique was to evaluate the research question in

theoretical as well as in a real scenario of the company to understand if the pattern is matched in all the three contexts or not.

In the annual reports (2016-2019), by view of the company's SBM and its commercial progress, a positive impact can be observed by the way of a consistent increase in revenue, customer base, company's presence and product adaptability. Similarly, the marketing material of IKEA perused sustainability in the PPP strategy for its BM and CE related activities in the creation of SP. Similar patterns were observed in the external reports which showed the transition of IKEA's BM towards SBM for the sake of sustainability by following CE related activities. The company's focus on sustainability has been discussed in the book '*Global Strategic Management*' highlighting company's impact on changing customers' lifestyle in many countries through its unique and many sustainability oriented products.

The researcher has observed that SBM has the potential to affect the stakeholders of a company, in this case customers. Theoretically, SBM presents a lot of ethical and valuable improvements to the way a commercial business is conducted. In light of CE, CG and ST theory, a pattern can be derived that SBM could significantly affect the way a company meets its customers' expectations.

However, there could be a number of other factors which can significantly affect this pattern. For instance, the legal, financial, micro and macro-economic factors could increase or decrease the significance of SBM in a particular scenario. Also, the industry in which a company is operating could have its own limitations or advantages in the implementation of SBM. Another factor could be the size and financial capacity of the company to move towards a SBM. It can also be argued that switching to sustainable ways of business could sometimes mean additional cost. This additional cost could directly affect the prices of the products and in turn the customers' affordability. Finding the right market, industry, supply chain, research and development and most importantly the customers with appropriate preference for such SPs could be challenging for any company. In addition, managing and controlling a complex international supply chain in a sustainable way could have its own limitations. Also, the ST theory typically focuses on the conventional interests of the stakeholders in a company where the business is considered as an activity to make profit and customers are largely driven by price and value proposition of the products they are buying. The researcher could not find any specific implications of sustainability or SBM in context of ST. One of the key point of this thesis was to understand the significance of SBM and its effect on the customers of a business. It is however, noted that the sustainability factors are not extensively discussed in the ST and further research on this parameter could be very useful to understand the dynamics of SBM in context of ST.

From the company's point of view, their reports and marketing material strongly presents their focus on sustainability as a strategic initiative to meet its customers' needs in the long run. If we just correlate the time since they conceived and started implementing the SBM, the business has continued to progress. The revenue, number of stores, number of customers and visits have consistently increased over time. While there could be other factors and reasons for this change, it can also be argued that the company had been implementing its strategic PPP initiative during the same time. This focus on SBM could therefore have a contribution in helping meet customers' needs. The scope of this thesis was limited to secondary data and was aimed at finding a pattern between SBM and meeting customer needs, with all other factors constant. With this in mind, it can be observed that there is a pattern where SBM has successfully helped the business meet its customers' expectations. Again, this is a preliminary assessment of a pattern. Further research based on primary data and detailed review of financial and economic

results and assessment of CSR and goodwill of the company would guide better in terms of the extent and significance of SBM.

Therefore, within the scope of this thesis, it can be stated that there is a pattern that SBM helps a commercial organization to its meet customers' interests. This pattern has been observed in the theoretical as well as empirical framework of this thesis. The conceptual framework derived by the researcher from theories seems relevant. SBM established on CE principles, with effective CG and consideration of ST can help a business create SP and ultimately meet the possible needs of their customers. However, the researcher has highlighted a potential gap in ST within the context of SBM. It is also worthwhile to emphasize the importance of using primary data from the company as well as independent sources to make a fair judgment on this pattern. Also, adding relevant financial, economic, social, customer trends and supply chain factors of the company will help establish or challenge this pattern even further.

### 5.3 Discussion

Regarding the discussion of SBM to meet the interests of external stakeholder i.e. customers (Jennings, 2001) in terms of providing SP, it is necessary to transform the traditional BM to SBM by utilizing the principles of CE (Antikainen & Valkokari, 2016). This study has attempted to analyze the relevance of SBM to customers needs by an empirical study of a commercial company practising SBM techniques. The observations from IKEA indicate that CE related practices could include production of SP to meet the interests of customers. In this section the results of other similar studies will be compared with the result of this study.

Taking some large companies into consideration like IKEA, Desso, Walmart, Marks & Spencer, the research of Seidel (2018) reveals that in order to utilize finite natural resources in a sustainable way it is important for businesses to adopt CE practices in their BM. The linear model of production has caused unsustainability in long run due to high opportunity cost of resource extraction. The circular model provides opportunities to reduce environmental footprint, but it has its own practical limitations. Being circular is virtuous but it is very hard even for large companies to fully transform into it. Therefore, the researcher suggests that if more and more companies adopt SBM it would create opportunities for collaboration and help make the transition easier towards CE. Comparing the results of Seidel with the result of this research, it has been noticed that large businesses usually have systematic business processes and procedures. A complicated nature of relationship exists throughout the organization but the right vision and attention towards achieving the goals and objectives could make a lot of difference. Achieving a fully sustainable model could be very complex to manage and implement as many industries will have supply chain and customer preference dependencies which may not be fully under a company's control. In large organizations like IKEA, transition from one BM to another takes a lot of time as there are many internal and external challenges in the way of transformation towards SBM. As it can be seen in IKEA's report of 2018, "*We are at the beginning of this challenging journey but we are on track – 60% of our range is based on renewable materials*" (IKEA c, 2018, p. 10). But the end result will be fruitful. Therefore, it can be said from the comparisons of the results of both studies that CE practices are necessary for being sustainable, but the transformation is not very easy. There is a need of collaboration between internal and external stakeholders at all the stages of BM and all levels of businesses. In this study, the researcher has highlighted the significance of CG for a successful transformation of a BM to a SBM. CG helps the business to control, direct and manage the responsibilities and decision making authorities of its executives in a responsible manner. Furthermore, it provides a framework for corporates to make rational use of resources to protect interests of its stakeholders including customers. The efficient and responsible use of

resources governed by CG lead to better business management and relationship among the stakeholders.

A study of Bermúdez and Schneider (2018), has presented the challenges of transforming a BM to a SBM. The key components of BM i.e. *value proposition*, *value creation & delivery* and *value capture* are used to analyze the main characteristics of the company's SBM. It suggests using sustainability across the organization and its supply chain. It also suggests that finding new income sources is important for organization but financial performance is not an absolute indicator of a company's achievement. This thesis has also considered *value proposition*, *value creation & delivery* and *value capture* as significant parameters for achieving the SBM. In Bermúdez and Schneider (2018) study the challenges of transformation of BM to the SBM are investigated whereas in this study the significance of SBM is considered to produce SP for the external stakeholders (customers). The researcher has considered the production of SP as a significant method to create and deliver value for the customers. SP are likely to be produced where SBM is used to create value for the customers. The findings show IKEA has consistently increased the range of its SP and have also achieved growth in its sale and revenue, it could be suggested that SP could deliver on economic as well as ethical parameters. Another finding identified in Bermúdez and Schneider's study was the legislative and regulatory support and adaptation for the implementation of SBM. Endorsing their findings this study sheds lights on the importance of CG. The controls provided by CG have helped IKEA to make an effective shift towards sustainable activities. This focus has induced the management to follow the ethical values and work for the welfare of all stakeholders.

Results from the study of Linfred and Nordeld (2017) reveal that extensive use of natural resources due to increase in population has caused a geological situation called Anthropocene, where irresponsible use of resources could disrupt life on whole planet. They have suggested sustainable use of resources could be possible through CE. The transition towards CE could be managed by product life cycle management. However, ensuring reliable sustainability information across the product life cycle is critical and could be managed through sustainability index and scorecards. Linfred and Nordeld (2017) have supported the idea with data from 12 textile companies. According to them, CE is gaining traction in the retail and consumer industry. In this thesis, the aspect of product life cycle is discussed in context of SP. As the production of SP will require sustainable sources of production and supply chain, the researcher has suggested that an emphasis on CE would significantly affect the product life cycle, all the way from a concept to delivery to the customers. It has been discussed how changing the supply chain for products to sustainable sources and creating SP can bring far reaching impact on the business as well as consumer preferences. The emphasis on CE and SP can be observed in IKEA's business strategy focus on 3R's. The 3R's (*Reduce, Reuse and Recycle*) principles of CE are underlying principles of sustainable products' life cycle. The case study of IKEA reveals that production of SP helped positioning it as a responsible business as well as succeed on economic, social and environmental objectives.

Another study by Togård (2016), suggests that linear model of economy depletes natural resources whereas CE promotes sustainable economic growth. To support the idea, linear and circular models were compared based on customer satisfaction and preference for SP, mainly from IKEA. It also discussed the concept of borrowing products for increased customer satisfaction instead of owning the products. The overall focus was on circularity in retail. Similarly, in this thesis, it has been learned how IKEA has consistently attempted to make a responsible use of natural resources by creating SP from sustainable sources. It has also been highlighted that these SP are getting traction with consumers and have the ability to achieve customer satisfaction.

All the referenced researches promoted the need of CE and signified its importance for a business as well as the customers. Some have approached it from the value proposition perspective, others have focused on the supply chain, need for objective reporting and product life cycle management. While, this thesis has attempted to understand the need and significance of CE over linear economy in order to produce SP. The SBM is discussed in light of CE, CG and ST. Keeping in mind the theoretical framework of CE, the researcher has analyzed previous research work in retail sector, specifically on IKEA. The researcher has attempted to approach sustainability by pivoting the research on SBM as a means for creating SP and considering SP as a primary way for meeting the interests of a commercial organization. It has also been discussed that SP have a distinct product life cycle with CE principles embedded throughout to create value for the customers.

Overall, this study indicates a possible gap in the existing literature of ST and SBM with the CE related practices for the creation of SP. Moreover, in this study it can be stated that the strong CG and ST can be very important for the commercial organisations to transform the BM towards SBM to meet the interests of internal stakeholders (customers). But in the existing literature of ST the creation of SP for customers is missing. Therefore, there is a possible need for this theory to be further developed.

The researcher studied the phenomena with multiple sources and observed similar findings which support IKEA's image as a business focused on sustainability. The company's marketing reports and some external data showed inclusion of CE practices in IKEA's SBM. The researcher has reviewed company's financial performance in last four years with a consideration to its PPP initiative in effect. It has been observed that the company has consistently increased its line of SP as well as its revenues and profits. These factors support the research aim that the transition towards a SBM have actually helped the company to create SP and meet the interests of its customers. , Therefore, it can be stated that companies have the potential to become successful in terms of existence, profit margins and gaining customers loyalty by using a SBM. Although from the IKEA's product range of more than 9500 products, only few products are called SP but their contribution to the business and BM cannot be ignored.

## 6 Conclusions

The researcher states that when a conventional BM is transformed into a SBM, it has the ability to produce SP. These SP could help satisfy the needs of the customers as well as position the organization for a sustainable economic growth. This journey requires the implementation of CE model as a baseline. The role of customers in the success of a commercial organization is discussed in light of ST. The overall framework of CE, ST and SBM is planned, implemented, monitored, and controlled through CG.

This study has its theoretical foundation in the concepts of BM, SBM, CE, SP, CG, and ST. Based on this theoretical framework, an empirical data analysis was conducted of a commercial organization, IKEA. The company's empirical data was tested based on the theoretical framework using *pattern matching technique*. The empirical data findings revealed that the transition towards the SBM with underlying principles of CE helped the subject company to successfully continue and grow its business. Also, as a natural outcome of SBM initiatives, the company was able to create a range of SP which contributed to an increase in its revenues and number of customers over time. Therefore, it is concluded that a successful implementation of the SBM can help a commercial organization to meet the interests of their customers by providing them SP.

In this case study, SBM initiatives have helped the subject company to make economic and financial progress. This company largely operates in developed countries. It has consistently increased its revenues and sales. It has a decent control over its supply chain with products having an ability to adapt to a sustainable product life cycle. It serves the needs of those customers who have consistently become more aware and fonder of SP. All of these factors are great enablers for the transformation to SBM. In cases, where any of these attributes are missing, it could be argued that the transition towards a SBM may not be as quick or effective.

Achieving a fully SBM and an absolute SP line may not be possible for many organizations due to the environmental, industrial, consumer and production related contingencies. The legal, economic, social and environmental hurdles and complexities could significantly impact the success of a SBM. Also, customer awareness, products' value proposition, social trends and financial implications of sustainability initiatives play a significant role in the speed and effectiveness of transition towards SBM. While a fully SBM, may still be a far fetch for large organizations, a consistent and steady transition could certainly bring better results over time.

Overall, it is concluded that SBM helps meeting both the interests of the customers as well as of the organization with least impact on the environment. Large organizations should take the lead in transforming towards the SBM. They have a greater potential to influence their supply chain and customer preferences compared to smaller organizations. Therefore, they can play a vital role in transforming the conventional ways of business to sustainable ones for the greater good of people.

### 6.1 Contribution to Business Studies

The researcher has contributed to understand the importance of SBM to meet the interests of customers. She has discussed the relevance of CE theory, CG theory and ST theory in the application of SBM from various aspects. She has also highlighted a possible gap in ST within the context of SBM. She has also expressed the need for researching the pattern between SBM

and meeting customers' interests in a wider framework of data, financial, social and economic variables.

This research has presented a sound consideration for SBM along with the importance of CE to look after the interests of customers. Moreover, the study provides the insights from previous researches on IKEA regarding sustainability issues. It also discussed that responsible and rational customers tend to prefer SP, therefore provide a reason for commercial companies to look for sustainable options while continuing to drive the business growth.

Moreover, the researcher has analysed empirical data of a large commercial company on the merits of these theories to understand how well these theories helped in the implementation of SBM at IKEA to meet its customers. Lastly, with use of pattern matching theory the researcher has attempted to validate if theoretical framework pattern can be observed in real scenario of a large commercial company. This validation has been conducted by analyzing business performance indicators of revenue, sales volume, number of co workers and company presence over four years (2016 - 2019) with SBM in effect. It has been observed that the pattern of these indicators match with the theoretical framework pattern that a SBM helps to meet the interests of stakeholders in large commercial organizations. Therefore, the contribution of this study is to emphasize the importance of SBM for the production of SP and ultimately meeting customers' interests and expectations.

## 6.2 Limitations of the study

The research has been conducted on secondary data mainly because of the challenges to access the primary sources during pandemic situation. The secondary source of data collection provides the empirics. Although the secondary data is most suitable in case studies because it saves time and cost yet provides summarized information of high quality from credible and verified data sources. However, there are some limitations to it.

Due to generalized nature of secondary data it does not provide a specific answer to researcher's specific research question. Furthermore, the research is addressed mainly from a business's point of view and how a change over to SBM can affect it. It has not necessarily taken into account, customers' opinion, preferences and awareness statistics on conventional vs sustainability focused companies. This partial view could have potentially directed the researcher to have an imperfect view of factors affecting SBM.

Analysis of empirical data is limited to the researcher's ability and understanding of theoretical framework and literature review, therefore there could be limitations and projections of theories which are not fully addressed. Also the researcher did not have means and access to decision makers of the company which has limited her ability to cross questioning and scenario based testing of theoretical framework in a real environment. Overall, the research aimed to apply and evaluate the theoretical framework on empirical data to determine if the research is validated.

## 6.3 Further research

Further research is recommended on the long-term implications of SBM on stakeholders' management in terms of their interest in SP and their loyalty to businesses focusing on sustainability. It will also be of interest how unexpected economic downturns and pandemics can influence the BM of a company and customers interest in conventional vs SP.

As the SBM is still not practised at a significant scale in commercial companies. It would be interesting to see what are the financial and economic limitations of SBM over a longer period of time?

Since this study focused on external stakeholder's interest regarding SP only, therefore, for future studies it would be motivating to compare the interests of internal and external stakeholders. Another suggestion is to conduct multiple case studies with similar or small and medium sized organizations. The value of sustainability cannot be undermined, regardless of the industry, type and size of the business. The idea here is to define, shape and adapt these sustainability initiatives in a way that can help make us effective changes in our lifestyle as well as change our economic, financial environment at a macro level for good.



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