Spotlight
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What is the key to unlock real circular business models?

How dynamic capabilities translate into circular business models, especially when stakeholders turn up the pressure

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Circular economy talk is everywhere: "close the loop," "turn waste into resources," "design out waste." But in practice, companies struggle to move beyond pilot projects. That gap—big ambition, slow transition—is where this article lands. The authors focus on **circular business models (CBMs)** and ask a deceptively simple question: *What actually makes firms adopt them?*

A common answer in management research is **dynamic capabilities**: firms that can sense changes, seize opportunities, and transform themselves should be better at big shifts like circularity. The authors challenge the "automatic" version of that story. Dynamic capabilities make change possible—but they don't dictate *which* direction change will go. A firm might deploy its strongest capabilities to launch a new product line, expand internationally, digitize sales… and still remain largely linear.

So the paper brings in **stakeholder theory** to explain *when* dynamic capabilities turn into circular business model change. The key mechanism they propose is **green image**: companies often invest in visible, credible environmental signals first, which can become a bridge toward deeper operational circularity —especially when stakeholders are watching closely.

WHAT WE STUDIED

The research context is the **wood and wood-processing industry** in the D-A-CH region (Germany, Austria, Switzerland)—a relevant setting because wood is a renewable resource with strong circular potential, but the industry also faces regulations and scrutiny due to environmental impacts.

Data and sample

The authors built their target population using Bureau van Dijk's **Orbis** database and focused on firms in wood-related NACE codes, headquartered in the D-A-CH region, with at least nine employees. They identified **1,631 firms** and conducted an executive survey between **June 2022 and April 2023**. **200 companies** participated (12.26%).

The survey was substantial (121 questions), with a reported median completion time of 27 minutes, and the authors report a post hoc power analysis indicating sufficient statistical power for their regression structure.

Measures and model

The paper models:

- **Dynamic capabilities** (conceptually: sensing, seizing, transforming)
- **Green image** (as an intermediary mechanism)
- **Stakeholder pressure** (as a boundary condition/moderator)
- **Circular business model** outcomes, measured via a formative index that captures circular activities (including *external* and *internal* circular value creation, among other elements of the circular value proposition).

They analyze the model using **PLS-SEM** (partial least squares structural equation modeling), suitable for complex models with formative constructs and mediation/moderation. They use bootstrapping (10,000 replications) and describe steps to assess robustness, including common method variance and endogeneity checks (details referenced in supporting information).

A small but relevant note for Spotlight readers: the study also includes **family ownership as a control variable**, measured as the percentage of equity owned by a family (including family foundation). The paper isn't "about" family firms, but it explicitly accounts for them in the model setup.

KEY INSIGHTS

Green image can be a capability-building bridge

A lot of leaders treat "green image" activities as surface-level: certifications, reporting, eco-labels, sustainability messaging. The authors argue that's too simplistic. In their theory, green image is often where dynamic capabilities get deployed first—because it's a manageable, legible, stakeholder-facing way to start the transition.

That matters because CBMs are described as capital-intensive and risky—more marathon than sprint. The logic is: firms use dynamic capabilities to build credibility, legitimacy, and internal routines around sustainability (green image), which then helps them progress to circular business models.

Dynamic capabilities can influence circularity, but the path depends on stakeholder pressure

The paper's central contribution is not "dynamic capabilities matter" (we kind of knew that), but *how they matter under different conditions*.

Their results support a model where dynamic capabilities influence CBMs both directly and indirectly through green image—**but** the *relative importance* of those paths changes with **stakeholder pressure**. Under high stakeholder pressure, the influence becomes **fully indirect** through green image (i.e., green image is the channel through which capabilities translate into circular outcomes).

Practically, this means: in low-pressure environments, a capable firm might push circularity through operational initiatives directly. In high-pressure environments, capabilities get routed into reputation/legitimacy-building that then enables CBM progress.

Stakeholders shape the mechanism of change

Stakeholder pressure in this paper isn't just a background variable; it changes the way capability gets expressed. When pressure is high, firms appear to lean into green image as the stepping stone that makes circular transformation feasible (internally and externally).

One reason this is interesting: green image is sometimes framed negatively in sustainability debates (as "symbolic actions" or greenwashing). This study pushes back on the automatic negativity and suggests symbolic steps may sometimes be part of a real transition pathway—especially when they build the trust and permissions needed for bigger investments.

Circular business models are multi-dimensional

A very concrete contribution is the paper's **formative CBM index**, which breaks circular business model activity into a set of implementable practices. For example, the CBM index includes elements of **external circular value creation** (e.g., circular procurement choices, partnerships, data/identifiers for traceability, recycling activities) and **internal circular value creation** (e.g., use of production waste, energy generation and reuse, certifications).

This is useful because "circularity" often stays vague. Here, it's translated into operationalizable activity lists. The authors also openly acknowledge that—because the scale is newly developed—it needs further validation across industries and contexts.

TAKEAWAYS

Treat green image work like pre-work for circular execution

If your organization is early in its circular journey, "green image" actions (certifications, credible reporting, third-party validation) shouldn't be managed like a marketing side quest. In this study's logic, these actions can:

- force internal discipline (data, standards, processes),
- build external trust (customers, investors, regulators),
- and create the legitimacy needed to justify heavier investments later.

Use stakeholder pressure as fuel, not friction

The findings suggest stakeholder pressure can act as a catalyst. Instead of only experiencing it as constraint, managers can leverage it to secure resources for circular investments (which are often hard to justify on short-term ROI alone).

Build dynamic capabilities with circularity in mind (not just "innovation")

Dynamic capabilities are general-purpose. If they aren't pointed toward circular outcomes, they may drift elsewhere. The paper's framing implies leaders should actively connect capabilities to circular priorities.

Make circularity concrete with an activity-based roadmap

The CBM index in the study is essentially a menu of circular practices. You can repurpose this idea internally:

- Identify which *external circular value creation* steps are realistic first (e.g., certified inputs, recyclable

procurement, partnerships, traceability tools).

- Identify which *internal circular value creation* steps build efficiency and waste reduction (e.g., reuse of production waste, energy loops, internal certifications).

IMPACT

This article shifts the conversation away from a simplistic "capabilities → circularity" view. Instead, it suggests a more realistic transition pattern:

1. dynamic capabilities get deployed,
2. often first into green image and legitimacy-building,
3. and under strong stakeholder pressure this becomes the main pathway into circular business model adoption.

RECOMMENDATIONS

If you're trying to move toward circular business models (or help portfolio companies do it), use this paper's logic as a sequencing guide:

1. **Start with credibility-building that creates operational assets** (not just messaging): certifications, traceability, verified procurement standards.
2. **Convert stakeholder pressure into investment legitimacy:** formalize expectations, then use them to justify resource allocation.
3. **Define the "next step after green image" upfront:** pick 2–3 concrete circular activities to scale once credibility milestones are reached (e.g., recycled input substitution, take-back partnerships, internal reuse loops).

Done well, "green image" becomes less like a coat of paint and more like scaffolding—supporting the heavy construction work of genuine circular transformation.

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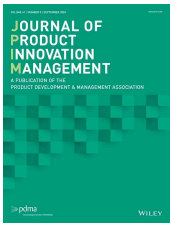
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