ORGANISING FOR
CIRCULARITY

HOW TO IMPLEMENT YOUR CIRCULAR ECONOMY STRATEGY AND ADDRESS ORGANISATIONAL CHALLENGES

SYSTEMIQ

EXECUTIVE SUMMARY

Companies are increasingly looking to adopt circular business models. They understand the strategic and commercial case for a more sustainable economy. But can they make the circular economy work for them?

For all the conversations around circularity, on the 'what' and 'why', there is not enough evidence-based guidance on how. How can companies achieve the strategic objectives of the circular economy and deliver its promised value? And how will their structures, processes - and people - need to change?

The case for the circular economy starts with global imperatives. They are the basis of a growing corporate responsibility to dematerialise product and value chains, to advance the net-zero agenda, and to make business a force for good in a triple planetary crisis of climate change, pollution, and biodiversity loss.

But moving to a circular business model is also a strategic and commercial choice. This may be motivated by hedging against resource and supply chain risks, mitigating regulation, or developing novel value propositions to consumers.

A growing interest in the circular economy has given rise to a vibrant CE-venture ecosystem, significant investment, corporate initiatives and coalitions across sectors, value chains and geographies.

Circular models typically involve new ways to engage consumers, manage products, track materials or to finance offerings. But designing, piloting, and scaling them successfully also requires innovation in leadership and organisational approaches. This is evident in theory, but rarely embraced in practice – all too often, the 'how' is missing.

This whitepaper shares insights, guidance, and best practices on how to organise for circularity. It draws on our conversations with strategy, sustainability, circularity, and organisational change professionals, from different industries and various stages of their journey to circularity.

Is your company also ready for that journey? A framework of eight tests - spanning organisational strategy, structures, processes, and people - will help you answer that question, along with best practices and a brief case study.

Our key findings reveal that:

- Leaders need to articulate a compelling 'north star': a concept of circularity that clearly links to the company's overarching vision and mission. Often, this implies fundamentally rethinking the way that a company creates, captures, and delivers value.

- Any north star needs to be translated into strategy and the corresponding governance mechanisms that focus corporate and business functions – the governance bodies should have skin in the game.

- A CE (Circular Economy) program depends on transparency and clarity on roles and responsibilities. CE initiatives typically require cross-functional teams to develop and implement solutions; this may be a difficult undertaking in traditional organisations.

- CE targets need to be included in performance management systems for commercial teams, so that CE becomes 'core business'. Traditional project evaluation systems often prioritise short-term effects and may undervalue the longer-term contribution of CE initiatives.

- Driving a CE program requires a process to ensure effective end-to-end execution, as well as sufficient resourcing and staffing, which should be aligned with the scale of ambition set by the strategy.

- The companies need to build a 'CE-muscle': by building up the necessary knowledge and skills, and by embedding CE in the company culture - for example, by developing a community of practice.

- Finally, companies need to become active ecosystem players. They should look to accelerate the regulatory and institutional shifts required to maximise CE's potential to create value.

This paper's 8-test framework and insights are designed to help you identify your organisation's strengths and target efforts on areas for development, but also as a starting point to taking your own organisation and your peers on a similar journey.

THE CIRCULAR ECONOMY IS INCREASINGLY BECOMING THE NEW PARADIGM FOR BUSINESS

As the consequences of our current linear production model are becoming increasingly evident, companies are developing circular economy strategies and initiatives to extend, cycle, intensify or dematerialise resource loops.[1] The environmental benefits of a circular economy, dematerialisation and the 'as-a-service' movement are well understood – indeed, the Intergovernmental Panel on Climate Change recognises it as essential for a net-zero world.

Commercial and strategic considerations are also behind this momentum. These include companies looking to hedge against resources risks, mitigate supply chain disruption, and anticipate radical policy shifts. As inflation hits discretionary consumer spending, as consumers search harder for value, and as generational shifts from owning to experiencing start to influence a company's offer, the adaptive nature of circularity looks increasingly like part of 'the answer'.

CE transitions, then, are about a lot more than recycling. They represent a tremendous shift in our economy and a significant opportunity for value creation and disruption. This is evidenced by:

- an ever-growing list of CE-focused breakthrough ventures with a strong digital component, including Grover, BackMarket and Trove.

- corporates from all sectors making bold bets on the circular economy agenda, including Walmart, Nike, Lululemon, Timberland, ON, IKEA, Apple, and eBay.

- new coalitions and catalysts, such as the Ellen MacArthur Foundation, accelerating a transition by facilitating knowledge creation and exchange, as well as developing practical tools, such as Circulytics.

However, a successful transition has its challenges. CE-driven business models often require:

- **Novel ways of understanding and engaging with consumers.** For example, these may establish ongoing consumer relationships beyond the point of sale, incentivise dematerialisation, or nudge users towards behavioural change.

- **Innovative technologies and product management solutions** to enable material traceability, lifecycle management of products and material inventories, sharing solutions, subscription, or digital wallet systems.

- **New financing and insurance solutions** to establish liabilities and share risks in new supplier-customer relationships, or craft new financing models for 'as-a-service' models that are more capital intensive and based on producer ownership.

- **New leadership and organisational approaches,** including building key capabilities, defining new models of collaboration within the company, but equally developing a strong partnership and ecosystem mindset.

While all these elements are important, this whitepaper **focuses on leadership and organisational approaches.** Getting this right will underpin the development of the other aspects and enable a successful transition towards circularity.

[1] Geissdoerfer et al. 2020

CE TRANSITIONS REQUIRE THE DEVELOPMENT OF COLLABORATIVE RELATIONSHIPS WITHIN COMPANIES, ACROSS COMPANIES, AND AT A WIDER SYSTEMS LEVEL

Walmart moving to omni-channel retail. Netflix expanding from distributor to content developer. Ørsted's shift from fossil fuels to renewable energy. CE transitions require a similar scope of change – and even greater collaboration.

Transforming an organisation to circularity requires a significant evolution across several basic structures of the business – from strategy to culture.

Such transformational change is often initiated to address a major concern or challenge facing the business. Examples include digital transformation, such as Walmart's move from traditional bricks-and-mortar stores to omni-channel retail; the development of new products or business models, such as Netflix's transition from movie distribution to original content development; or the entire repositioning of a business, such as Ørsted's transition from fossil fuels to renewable energy.

These processes all require:

1) a persuasive vision and transformation strategy;

2) clear governance structures and processes;

3) sufficient resources;

4) learning and skill development; and

5) benchmarking of transformation progress.

While these building blocks of change also hold for the CE transformation, CE places an even greater emphasis on collaboration within the company...

CE principles require that products, components, and materials be kept at their highest utility and value. Implementing CE solutions to achieve this depends on new levels of end-to-end collaboration across functions. An 'as-a-Service' business model, for example, will require a company's functions – product design, after-sales services, marketing/sales, and distribution – to integrate as never before.

…And with external stakeholders.

Certain CE solutions, such as circulating products, will require companies to develop new forms of collaborative partnerships with each other. CE offers an opportunity to diversify material flows by creating new supply relationships, potentially increasing a company's resilience to price volatility and supply restrictions. At systems level, the transformation to CE can succeed only if institutions and the regulatory environment also adapt.

Collaboration between companies, policymakers, standards bodies, industry associations, NGOs, and civil society groups is ambitious… but, as the EU's Circular Economy Action Plan shows, this is already happening.

THE 8-TESTS FRAMEWORK

Successfully transitioning to CE requires companies to adapt their organisational models.

We embarked on a research effort to understand how companies could organise for circularity. To identify best practices and archetypes, we conducted 10 case studies, with companies from different sectors and stages of CE maturity and reviewed the academic and practitioner literature on organisational change.

The result of this work is a framework to help companies design organisational models that enable them to become CE pioneers (see Exhibit 1).

The following sections provide a synthesis of these eight tests and identify CE best practices. The aim is to enable businesses to stress-test their current organisational models and to transition successfully towards circularity.

ORGANISING FOR CIRCULARITY - THE 8-TESTS FRAMEWORK
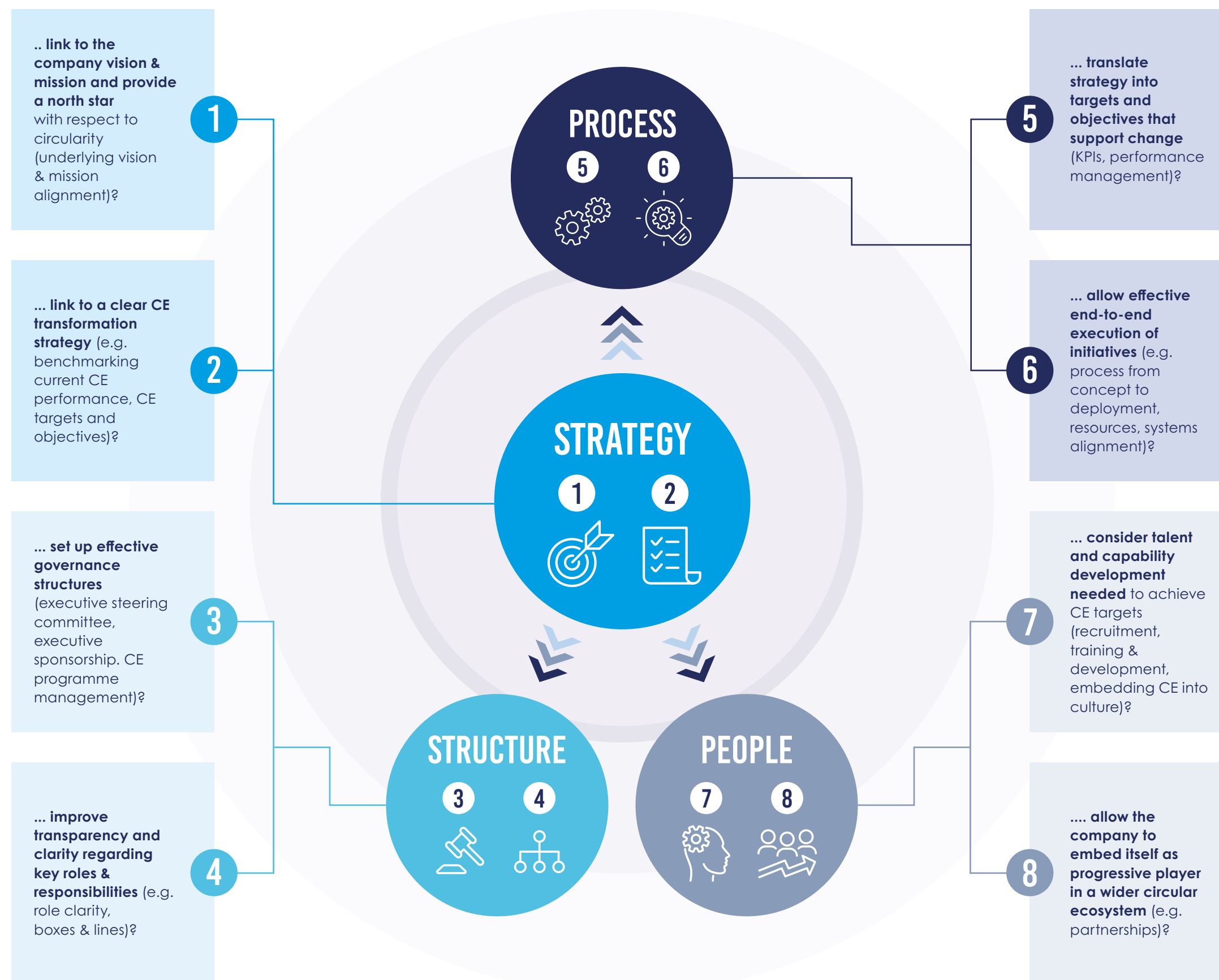
HOW EFFECTIVELY DOES THE ORGANISATIONAL MODEL...

1 — **.. link to the company vision & mission and provide a north star** with respect to circularity (underlying vision & mission alignment)?

2 — **... link to a clear CE transformation strategy** (e.g. benchmarking current CE performance, CE targets and objectives)?

3 — **... set up effective governance structures** (executive steering committee, executive sponsorship. CE programme management)?

4 — **... improve transparency and clarity regarding key roles & responsibilities** (e.g. role clarity, boxes & lines)?

5 — **... translate strategy into targets and objectives that support change** (KPIs, performance management)?

6 — **... allow effective end-to-end execution of initiatives** (e.g. process from concept to deployment, resources, systems alignment)?

7 — **... consider talent and capability development needed** to achieve CE targets (recruitment, training & development, embedding CE into culture)?

8 — **.... allow the company to embed itself as progressive player in a wider circular ecosystem** (e.g. partnerships)?

PROCESS — **5** **6**

STRATEGY — **1** **2**

STRUCTURE — **3** **4**

PEOPLE — **7** **8**

Exhibit 1 – The 8-Test Framework

STRATEGY:
SETTING A CLEAR DIRECTION

TEST 1: THERE IS A CLEAR AND UNIFIED 'NORTH STAR' VISION

The transition to circularity requires companies to fundamentally rethink the way they create, capture, and deliver value.

For many CEOs, the CE principles of eliminate waste and pollution; circulate products and materials (at their highest value); and regenerate nature, are an appealing proposition to reduce a company's environmental footprint, increase resource efficiency, and create additional customer value. However, as with other strategic change processes, the CE transformation may face resistance from both internal and external stakeholders.

Leaders need to articulate a compelling circularity 'north star' that clearly links to the company's overarching vision and mission.

This north star should address a wider societal purpose, such as being net positive or redefining lifestyles towards circularity. To make this relevant and desirable, it should be integrated with the company's existing vision and mission, showing that CE is a natural continuation of what the company does best. For example, leaders can highlight the potential of CE to help organisations tackle multiple challenges at once, from supply chain disruptions and increased resource price volatility to climate action.

Case Study: The case of a 'hygiene-as-a-service' provider, which linked CE to its heritage as a family-owned enterprise, shows how this can be done effectively.

To this company, the CE principles of circulating products and materials at their highest value and eliminating waste and pollution aligned well with its commitment to doing business with a positive legacy and to contribute to a 'healthier and safer tomorrow'. By linking CE to its heritage, the company was able to bring employees on board with the CE transformation.

> " *In our company we focus on creating value for future generations. We apply our heritage as a family-owned business to our engagement for CE. For us, sustainability and profitability are intricately linked. We do business in a way that is generation-friendly!*

TEST 2: THE CE VISION IS TRANSLATED INTO STRATEGY, TARGETS, AND OBJECTIVES

The CE vision needs to be translated into strategy to become reality.

Crafting ambitious yet realistic CE strategies is particularly hard to get right. For one, many CE strategies are developed in addition to corporate strategies and often these re not integrated. Secondly, in comparison to their 'traditional' counterparts, CE strategies are characterised by different timescales and investment-return profiles. Despite these challenges, some success factors stand out:

1. Companies developing ambitious CE strategies fundamentally rethink the way they create, capture, and deliver value in the future. This connects the company's overall purpose to what the business does day-to-day and is often particularly challenging.

2. Analyses of internal capabilities and external factors such as supply chains and resource risks, geopolitical disruptions, changing customer preferences or regulatory frameworks can

quickly become one messy, confusing process. Successful CE strategies consider the dynamic connections between systems, actors, and trends – or at least aim to do so.

3. Any strategy and ambition to become a CE leader needs to be grounded in a solid understanding of the starting point. This includes an analysis of material flows aligned with CE principles, an assessment of CE initiatives and practices, or revenues generated from CE activities. To do this effectively, companies can use existing tools, such as Circulytics, which provides a comprehensive approach for measuring organisation-wide circularity performance.

4. There is rarely one obvious strategy; however, different options come with limitations, uncertainties, and trade-offs. To mitigate these ambiguities, scenarios and transition pathways can help to understand how different CE principles can increase value creation and/ or retention, and to identify what is needed by when to achieve these ambitions.

5. Too often, companies define a CE vision, but fail to work out intermediate CE targets, objectives, and implementation roadmaps. To do this well, the company needs ensure that targets combine both near- and longer-term objectives that are tangible and are aligned with the wider corporate strategy.

Case Study: A global apparel company used this approach to develop its CE strategy focused on keeping clothes in use for as long as possible.

The company had a real breakthrough moment when circular economy was declared one of its key overarching strategic priorities. As a result,

the potential impacts on the CE strategy were considered in all strategic decisions, from the mergers and acquisitions to the product mix. This allowed the board of management to anticipate synergies and to quickly become a globally recognised sustainability and CE pioneer in the apparel industry.

> " *Everyone knows that we must change and dematerialise, but we were paralysed – CE has a different value logic and creates returns on different timescales. Only once it was made a strategic priority by the board, CE started to be discussed on an equal footing with other topics, which allowed us to anticipate potential synergies.*

STRUCTURE:
ASSIGNING CLEAR ROLES AND RESPONSIBILITIES AND EFFECTIVE GOVERNANCE MECHANISMS

TEST 3: EFFECTIVE GOVERNANCE MECHANISMS ARE SET UP

Every CE strategy needs governance mechanisms to focus the responsible corporate and business functions and ensure its implementation.

In our experience, there are three elements for successful governance:

- **An executive steering committee**, who own the overall direction of the CE programme, take strategic decisions, sign off on implementation roadmaps, allocate resources, resolve issues, and hold stakeholders accountable. It should include senior leaders from both internal and market-facing organisational units (e.g., N-1).

- **Executive sponsors**, often also members of the steering committee, who take ownership of and are accountable for the implementation of elements of the CE strategy.

- **CE programme management**, which coordinates the overall programme and is responsible for developing strategy, planning initiatives, and managing the change process.

All these elements must be held accountable for their contribution to ensure that the CE transformation and projects are carried out successfully.

Case Study: To understand the importance of strong governance, consider the case of a global toy manufacturer.

This company developed an ambitious CE strategy but realised that effective governance mechanisms would be required to reach its goals. The company formed a steering committee with senior executives from essential functions and made them individually accountable for advancing parts of the CE strategy. By tying individual performance and career progression to the success of this programme, the company was able to ensure that the steering committee would be a driving force.

> *Having the support of the CEO is critical to us. Without his support, our journey to CE simply would not happen. But without the support of other senior executives, CE would only be a paper tiger. We invested a lot of time in getting the support of these stakeholders.*

TEST 4: THERE IS TRANSPARENCY AND CLARITY ON ROLES AND RESPONSIBILITIES

Leading CE organisations create transparency and clarity on roles and responsibilities from the start.

Based on our experience, the CE organisation starts with a strong nucleus team that drives the CE programme and is well connected to other teams across the organisation. This nucleus team should be led by a CE programme lead with a clear mandate from senior leadership to identify and align strategic CE initiatives, coordinate implementation, and manage internal and external stakeholders. In addition, there needs to be a cross-functional team with dedicated resources to carry out dedicated change management, communications, project management, and agile working support.

Cross-functional teams are necessary to develop and implement CE solutions.

For example, changing to a service-based business model requires design, marketing/sales, digital and distribution functions to develop joint solution approaches. These cross-functional project teams should focus on solving specific problems, such as developing a concept for an 'as-a-service' business model pilot for a specific product in a specific region. Moreover, these teams should be supported and led by internal CE experts, who could support the coordination and implementation of the different CE initiatives, such as in reuse.
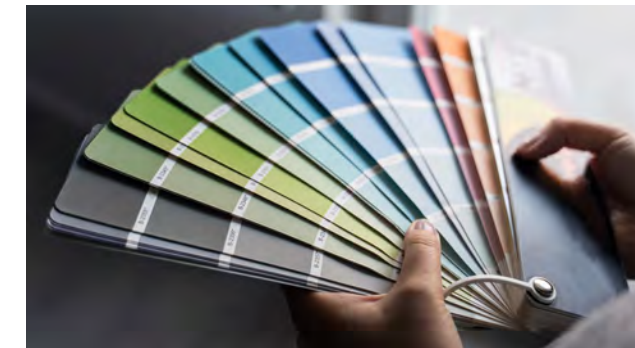
Case Study: A global ink manufacturer achieved success implementing this approach.

They defined distinct roles within their CE organisation to effectively manage the CE transition. This ranged from a strategic steering role to oversee the different ongoing CE initiatives and ensure alignment among them, to change management support to overcome mindset challenges in the organisation, particularly among middle management. By taking a holistic perspective on the roles and responsibilities required, the company was able to coordinate CE initiatives more effectively and to address mindset challenges early on.

> *Our investments in change management paid off significantly. In just a few months, everybody understood and internalised the importance of CE to our strategy and overall operating model.*

PROCESS:
ENSURING AMBITION BECOMES ACTION

TEST 5: PERFORMANCE MANAGEMENT IS ALIGNED TO CE STRATEGY

CE needs to be anchored in performance indicators and management – otherwise CE will stay a 'nice to have' and never become core business.

It is important to link function, team and individual performance objectives and goals to the CE strategy and targets. This is necessary to cascade CE targets through the organisation and align everyone to the CE strategy. Many companies struggle with managing trade-offs between short-term commercial targets, such as sales or profitability, and long-term strategic CE targets. These will have to be anticipated and managed when formulating strategy, and then incorporated into performance management.

CE projects need different evaluation methods from other projects.

Many CE projects do not fit within traditional appraisal methods. Companies that fail to tailor performance indicators to circular business models run the risk of undervaluing the contribution of these models to profit margins and other (financial) metrics, thereby putting the transformation at risk. For example, businesses should optimise performance indicators for an outcomes-based approach, by setting metrics that decouple revenue from production volume.

Case Study: The case of a chemicals company exemplifies how to successfully align performance management to CE strategy.

In their strategy, they formulated CE transformation targets and cascaded these down across business units. In addition, they linked executive performance incentives to the achievement of these targets. Their performance management system was enabled by linking their internal Enterprise Resource Planning system to the CE targets, thereby getting automated insights into their CE performance. This transparency allowed the CE programme manager to get targeted insights and provide support to business units struggling to meet CE objectives.

> *It was important for us to integrate CE into the core business, by having a revenue-based CE target. This allowed us to break it down to our different business units and to integrate it with our performance management system. Ultimately, integrating these elements helped shape a discussion on business models and how we want to compete in the future.*

TEST 6: EFFECTIVE END-TO-END EXECUTION IS ENABLED

Be clear on processes to ensure an effective end-to-end execution.

This starts with clear process design and a clear view of how CE initiatives are stimulated, identified,

evaluated, developed, and implemented. Leading companies:

- … develop a structured approach to stimulate CE initiatives: While the CE programme management coordinates efforts, companies need to enable and foster bottom-up channels for CE initiatives and pilots, for example through internal matchmaking platforms or by posing CE-related innovation challenges.

- … implement a company-wide, circularity-specific framework to align, develop and evaluate initiatives and measure success (e.g., the EMF's Circular Design Guide), regardless of whether they involve innovation at the business model-, product-, service- or material level.

- … define clear handover points during the development and implementation processes, involving the right people at the right time. This process specifies linkages between functions, systems, and technology, and clarifies communication channels and mediums for internal CE networks (such as a shared intranet page).

Allocate sufficient and dedicated resources and staffing to CE projects – these should be in alignment with the ambition set in strategy.

Sometimes we see companies setting ambitious CE strategies but allocating insufficient resources to their implementation. In our experience, successful companies ringfence CE resources from other strategic initiatives and develop innovative instruments to ensure funding, such as co-funding models or dedicated internal CE funds.

As the organisation moves further in its transition to CE, increasing funds should be dedicated to it. In addition, the company needs to ensure that it has the right systems and tools to support CE implementation (e.g., client-facing digital systems) and that these are configured for use with the new CE solutions.

Case Study: The case of an equipment manufacturer shows how to set up effective end-to-end execution.

The CE team had a clearly ringfenced CE budget to prevent funds being shifted to other strategic priorities. They also set up a specified CE fund for new initiatives that was financed by the proceeds and gains from implemented CE solutions. In doing so, they ensured sufficient funding for CE initiatives and signalled to the entire organisation that these were profit, not cost centres.

> *You need to have strong ownership - from 0 to 80%. The people who start a CE initiative should see it through until it is about 80% finished. This is necessary to make sure that the initiative does not lose steam when challenges, such as legal, tax, or accounting issues, occur during the implementation.*

PEOPLE:
INVESTING IN PEOPLE AND RELATIONSHIPS

TEST 7: DO LEARNING AND DEVELOPMENT CAPABILITIES SUPPORT A CE STRATEGY?

For a CE transformation, companies must develop the capabilities to drive the development of new knowledge and skills.

In our research, we identified three common strategies whereby companies embed CE in their learning and development capabilities. Successful companies:

- … adapt their recruitment processes to attract and retain CE talent – for example, by prioritising CE-related skills and knowledge in job openings.

- … develop their own CE training programmes to upskill those already in the organisation. Typically, these programs span foundational knowledge and cross-cutting skills, such as CE principles and systems thinking, but also function-specific skills, such as circular design and procurement. As cross-functional collaboration is key for transformation success, leading programs also incorporate communication, agile working, and conflict resolution training.

- … strategically embed CE in the company culture by developing an internal community of CE leaders who function as ambassadors within their departments (e.g., through running workshops), as well as by increasing collective awareness for circular initiatives, for example by developing internal circular innovation challenges or conferences.

Case Study: A chemicals company shows the impact of embedding CE within its people strategy.

It initiated an internal network of CE leaders, bringing together a community of managers and executives in functions critical to the success of CE in the company, with the aim of developing CE ambassadors across functions. This network met regularly to receive CE-related training, exchange experiences and learning from CE initiatives, and to provide input on the CE programme and implementation roadmap. The

company notes that having the ability to identify, develop and empower CE leaders within the company helps to accelerate CE initiatives across the entire organisation. The network strengthened internal collaboration and provided a platform for employees to get internal support and develop their entrepreneurial drive for CE.

> *Buy-in from all employees is needed. It is important to shape the hearts and minds of the company, build capabilities in the wider organisation, and to educate teams about what CE is and how to implement it. CE cannot be an 'ivory tower' topic - there must be continuous change management.*

TEST 8: THE COMPANY IS AN ACTIVE ECOSYSTEM PLAYER

Companies need to become active ecosystem players to accelerate the shifts in the regulatory and institutional landscape.

Even though many positive regulatory and institutional changes are taking place, there remain significant barriers for companies to scale circular business models at systems level. These may be rooted in an absence of economic incentives and regulatory requirements to circulate products and materials at their highest value - such as taxes on resource consumption; they may stem from insufficient investment and funding for new circular business models.

CE is a collective effort. Companies should set out to develop new partnerships and collaborations with actors from within and across value chains, as well as with policymakers, investors, industry associations and civil society groups.

For companies, collaborating with policymakers and investors can be particularly important to accelerate a CE transformation. For example, actively participating in coalitions, such as the

Circular Economy Initiative Deutschland (CEID), or aligning public affairs activities allows companies shape national CE agendas. Meanwhile, to improve their access to capital, companies may engage more actively with investors on the CE agenda. For example, BlackRock has set up a circular economy fund that has grown to more than $2 billion assets under management.

Case Study: The ink manufacturer from our network, for example, clearly understood that driving circular packaging requires collaboration along the entire value chain.

To do so, they actively contributed to different industry initiatives driving forward the CE concept. This allowed them to develop a strong network of like-minded partners, adding to the company's knowledge base and ability to influence standardisation and industry CE initiatives.

> *We aim to work with our partners to deliver a system-level perspective on the packaging lifecycle and to develop truly sustainable solutions. One big part of doing this is understanding how the single actions of individual members of the value chain work together effectively.*

OUTLOOK FOR THE FUTURE

Across industries, CE is no longer an issue of compliance but a strategic priority. Like digitalisation, CE requires a full-scale transformation of companies. However, existing lessons from other transformations cannot be readily applied, as the CE transformation requires not only end-to-end cross-functional collaboration at company level, but also at value chain and ecosystem level. A well-designed CE organisation is critical to master this change and to move from strategy to implementation.

The organisations that master this step will be able to successfully navigate the transformation. In so doing, they will shape the future of their industries and our understanding of the role companies can play in, and for, equitable and sustainable socio-environmental systems.

ABOUT SYSTEMIQ

SYSTEMIQ is a B Corp founded in 2016 to drive the Paris Agreement and the Sustainable Development Goals by transforming markets and business models in three key economic systems: land use, materials, and energy.

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ACKNOWLEDGEMENTS

We also would like to thank all the partners, contributors and interviewees whose insights and wisdom form the basis of this paper.

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