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Sustainable Business Model Innovation: Integrating Circular Economy and Shared Value Creation

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Abstract. *In response to escalating environmental challenges and shifting societal expectations, businesses are increasingly compelled to innovate beyond conventional models to achieve long-term sustainability. This study examines Sustainable Business Model Innovation (SBMI) by integrating two pivotal frameworks: the Circular Economy (CE) and Shared Value Creation (SVC). Through an extensive review of existing literature, the paper elucidates how the principles of resource efficiency, waste minimization, and product lifecycle extension inherent in CE can be synergistically combined with the economic and social imperatives of SVC to generate mutual benefits for businesses and society. The study highlights key drivers, barriers, and strategic approaches that organizations can adopt to embed sustainability at the core of their business models. By proposing an integrated conceptual framework, it offers actionable insights for practitioners and policymakers aiming to foster inclusive, regenerative, and competitive enterprises. Ultimately, this research contributes to the evolving discourse on sustainable innovation, emphasizing the necessity of aligning economic performance with environmental stewardship and social well-being.*

Keywords: *Sustainable Business Model Innovation, Circular Economy, Shared Value Creation, Strategic Sustainability Practices, Triple Bottom Line.*

1. Introduction

In the evolving landscape of global business, Business Model Innovation (BMI) has emerged as a critical strategy for companies striving not only for competitiveness and profitability but also for long-term sustainability. Business models traditionally focused on value creation and value capture through primarily economic lenses. However, the increasing pressure from climate change, resource scarcity, and rising social inequalities necessitates a paradigm shift in how businesses operate and deliver value (Bocken et al., 2014). This has led to the rise of Sustainable Business Model Innovation (SBMI), which integrates environmental and social considerations into

the core logic of business value creation.

Sustainable Business Model Innovation refers to the design and implementation of business models that create, deliver, and capture value while simultaneously delivering social and environmental benefits (Lüdeke-Freund, 2010). Unlike traditional BMI, SBMI redefines the purpose of businesses to include a broader range of stakeholders, emphasizing long-term resilience over short-term gains. This transition is no longer optional—it is becoming a strategic imperative as regulators, consumers, investors, and civil society demand accountability and sustainable practices from corporations (Evans et al., 2017). Two interlinked concepts that have gained prominence in the realm of sustainable business strategies are the Circular Economy (CE) and Shared Value Creation (SVC). The circular economy challenges the linear "take-make-dispose" industrial model and encourages a restorative and regenerative approach. It emphasizes closed-loop systems, resource efficiency, and longevity of products and materials (Geissdoerfer et al., 2017). Shared value creation, as proposed by Porter and Kramer (2011), urges companies to reconceive their operations in ways that generate economic value in a manner that also produces value for society by addressing its needs and challenges.

The mutual dependence between corporations and society is key to understanding how businesses can thrive while contributing positively to social good. In line with this, the principle of shared value has encouraged for-profit companies to adopt hybrid business models, such as the social business model and the inclusive business model. These models are designed to generate both economic and social value, aligning business objectives with broader societal benefits. Companies pursuing such models often engage in strategic Corporate Social Responsibility (CSR) initiatives that foster long-term sustainability and inclusivity. While social and inclusive business models share similarities in aspects like partner networks, knowledge use, and value chain development, they also diverge in terms of governance systems, value propositions, and economic profit models (Michelin et al 2012). Understanding the characteristics of these hybrid models is essential for businesses seeking to transition towards Sustainable Business Model Innovation (SBMI) and integrate circular economy principles and shared value creation in their strategies. According to Tapaninaho and Heikkinen (2021), a stakeholder relationship perspective on value creation in CE business enables the development of joint value creation activities, such as co-constructing knowledge, sharing the CE story, and creating local CE ecosystems. The concept of multidimensional value is introduced to account for diverse, subjective stakeholder expectations, highlighting the need for collaborative efforts across the value chain. By fostering these stakeholder relationships, companies can create synergies that not only advance circular economy practices but also support long-term sustainability. This approach aligns with the broader principles of shared value and encourages businesses to integrate sustainability into their models while engaging stakeholders to drive mutual benefits.

This paper explores how the integration of Circular Economy principles with Shared Value Creation frameworks can lead to robust, innovative, and future-proof business models. Through theoretical insights, practical examples, and strategic frameworks, it aims to provide a comprehensive guide for practitioners and scholars alike on navigating this critical transformation. The primary objective of This paper is to explore the concept of Sustainable Business Model Innovation (SBMI) and its significance in transforming traditional business practices into more

sustainable approaches. It aims to examine the evolving role of business model innovation in addressing sustainability challenges and facilitating long-term value creation. A particular focus is given to the integration of circular economy models and the principle of shared value creation, both of which serve as critical mechanisms for aligning economic growth with environmental and social responsibility. Additionally, This paper seeks to investigate the drivers, strategies, and practical frameworks that enable businesses to adopt sustainable models, while also addressing the challenges and barriers that may hinder this transition. By doing so, This paper provides a comprehensive understanding of how businesses can strategically redesign their operations, value chains, and stakeholder relationships to achieve sustainability-oriented outcomes. Through theoretical insights and real-world examples, This paper intends to offer actionable guidance for managers, entrepreneurs, and policymakers in fostering innovation that supports both corporate success and societal well-being. This paper is structured into eight sections. Following this introduction, Section 2 elaborates on the concept of sustainable business model innovation and its key drivers. Section 3 delves into circular economy models and their business applications. Section 4 discusses shared value creation and its strategic relevance. Section 5 presents integrative frameworks for embedding CE and SVC into business models. Section 6 explores the challenges and barriers to adoption. Section 7 looks ahead to emerging trends and future prospects, and Section 8 concludes with key takeaways and recommendations for stakeholders.

2. Understanding Sustainable Business Model Innovation

Sustainable Business Model Innovation (SBMI) refers to the creation, modification, or reinvention of a business model to integrate sustainability principles—economic, environmental, and social—into the value creation process. Unlike conventional innovations that focus primarily on technological advancements or product development, SBMI rethinks the core logic of business operations to generate value not only for shareholders but also for a broader set of stakeholders, including communities, ecosystems, and future generations (Bocken et al., 2014; Boons &Lüdeke-Freund, 2013).

Table 1. Evolution of Sustainable Business Model Innovation (SBMI)

Stage	Period	Key Characteristics	Focus	Representative Concepts	References
CSR-Oriented Models	1980s–1990s	Sustainability as a peripheral activity; philanthropic or compliance-driven	Social/environmental concerns separated from core business	Corporate Social Responsibility (CSR)	Carroll (1999); Elkington (1997)
Strategic CSR & Eco-efficiency	1990s–early 2000s	Integration of sustainability into strategy; focus on cost savings and risk management	Operational efficiency; reputation	Triple Bottom Line, Environmental Management Systems	Elkington (1997); Porter &Kramer (2006)

Stage	Period	Key Characteristics	Focus	Representative Concepts	References
Value Chain Integration	Mid-2000s	Sustainability integrated across value chains; stakeholder alignment emerges	Value creation and delivery models	Shared Value Creation	Porter & Kramer (2011); Lozano (2015)
Emergence of SBMI	Late 2000s–2010s	Shift from incremental to systemic innovation; focus on core business transformation	Innovation in value proposition, creation, and capture	Sustainable Business Models	Boons &Lüdeke-Freund (2013); Schaltegger et al. (2016)
Circular & Inclusive Business Models	2010s–present	Adoption of CE principles, social inclusion, and digital tools	Systemic value creation across stakeholders	Circular Economy, Inclusive Business, Social Business	Lüdeke-Freund et al. (2018); Tapaninaho & Heikkinen (2021); 20.
Digital & Stakeholder-Driven Innovation	Present–Future	Digitalization, transparency, and stakeholder co-creation	Synergistic value through ecosystems	Blockchain, SDG-aligned innovation	Geissdoerfer et al. (2018); Bocken et al. (2019)

Source: Own Source

According to **Lozano (*2015*), internal drivers** such as leadership commitment and the business case for sustainability are fundamental to fostering a culture of sustainability within a company. At the same time, **external drivers**—including reputation management, customer demands, and regulatory frameworks—act as key catalysts for change (Elkington, J., & Hartigan, P. 2008). Companies increasingly face pressure from consumers who demand more transparency, ethical practices, and sustainability from brands. This shift in consumer behavior pushes businesses to not only comply with regulatory standards but to proactively innovate in ways that meet or exceed these expectations. Sustainable Business Model Innovation (SBMI) is increasingly recognized as a crucial lever for addressing climate change challenges. In aligning business practices with global sustainability goals, SBMI supports SDG 13: Climate Action, which calls for urgent interventions to mitigate climate-related risks. Companies adopting sustainable models often embed decarbonization strategies, renewable energy usage, and climate-resilient supply chains as core elements of their innovation efforts. These transformations not only reduce environmental impact but also enhance long-term resilience and stakeholder trust. The company's approach supports climate mitigation into corporate planning, ensuring that sustainability is measurable and actionable at all levels (UN, 2015). SBMI extends beyond corporate social

responsibility or sustainability reporting—it embeds sustainability into the firm's purpose and its operational structure. It seeks to tackle grand challenges such as climate change, resource depletion, and social inequality by aligning business practices with the principles of long-term value creation and resilience (Evans et al., 2017).

2.1 Differences from Conventional Business Model Innovation

Traditional business model innovation typically aims to improve firm competitiveness and financial performance through changes in customer value propositions, revenue models, or internal efficiencies (Teece, 2010). However, SBMI introduces new dimensions by:

- Addressing environmental and social externalities explicitly.
- Engaging diverse stakeholder groups in co-creating value.
- Shifting from short-term profits to long-term system resilience.
- Encouraging closed material loops, renewable resource use, and inclusive practices.

While conventional models often treat sustainability as a constraint, SBMI views it as a **strategic opportunity**and a**source of innovation**(Lüdeke-Freund, 2020).

2.2 Drivers and Enablers of SBMI

Sustainable Business Model Innovation (SBMI) is gaining traction as firms address global sustainability challenges while pursuing long-term value creation. This transition from linear to sustainable models is influenced by both internal and external drivers. Leadership commitment is a key internal force; visionary leaders embed sustainability into strategy, culture, and operations (Lozano, 2015). The business case for sustainability also motivates change, as companies realize that eco-efficiency and innovation can yield cost savings and competitive advantages (Boons &Lüdeke-Freund, 2013). Externally, regulatory frameworks such as environmental standards and green incentives compel firms to innovate (Geissdoerfer et al., 2018). Reputation is another significant driver—consumers and stakeholders favor companies that act responsibly, enhancing brand loyalty and trust (Lozano, 2015). Changing market expectations and consumer demand for sustainable products further pressure companies to adapt (Evans et al., 2017). Technological advances such as IoT, AI, and blockchain enable circular operations and transparency (Antikainen et al., 2018). Additionally, investors are incorporating ESG criteria into funding decisions, increasing pressure on firms to act responsibly (Eccles & Klimenko, 2019). Finally, organizational culture and purpose are evolving, with many companies shifting toward stakeholder capitalism and embedding sustainability into their core values (George et al., 2021).

2.3 Real-World Examples of Sustainable Business Models

Interface, a global carpet tile manufacturer, embarked on a mission in 1994 to eliminate any

negative impact it has on the environment. Its sustainability journey, called "Mission Zero," focused on reducing greenhouse gas emissions, waste, and reliance on virgin raw materials. By transforming its production processes and adopting closed-loop recycling, Interface has significantly reduced its carbon footprint. The company's long-term ambition is to operate in a way that actively benefits the environment, aiming to become a carbon negative enterprise (UNFCCC). Philips innovated its business model by introducing a "pay-per-lux" system in its lighting division, primarily for commercial clients. Instead of selling lighting equipment, Philips provides lighting as a service, where customers pay based on the light used rather than owning the fixtures. This Product-as-a-Service (PaaS) approach promotes energy efficiency, cost savings, and environmental sustainability. Philips retains ownership of the lighting systems, ensuring regular maintenance, efficient performance, and product longevity. This model aligns incentives between producer and consumer, encouraging durable design and reduced material consumption (pay-per-lux).

3. Circular Economy Models and Their Role in Business Sustainability

3.1 Defining the Circular Economy (CE) and Its Key Principles

The **Circular Economy (CE)** is an economic model that aims to decouple economic growth from resource consumption by designing waste out of systems, keeping products and materials in use, and regenerating natural systems (Ellen MacArthur Foundation, 2013). CE contrasts with the traditional **linear economy,** which follows a take-make-dispose approach, leading to environmental degradation and resource depletion. The shift from a linear to a circular economy contributes significantly to achieving SDG 13, as it reduces greenhouse gas emissions by minimizing resource extraction, promoting reuse, and eliminating waste. Circular economy models—such as product-life extension, regenerative systems, and resource efficiency—are central to climate mitigation (Geissdoerfer et al., 2017). By rethinking value creation through circularity, businesses can help stabilize global temperatures and reduce environmental degradation, while also gaining competitive advantage in a carbon-conscious marketplace

The CE model is built on four key principles:

- **Reduce**: Minimizing resource use and waste.
- **Reuse**: Extending product life through maintenance and repair.
- **Recycle**: Recovering materials for reprocessing.
- **Regenerate**: Restoring ecosystems and using renewable resources.

CE requires a systemic change in how businesses design, produce, distribute, and recover value from products and services (Geissdoerfer et al., 2017).

3.2 Shifting from a Linear to a Circular Economy: Business Implications

Transitioning to a circular economy entails reimagining production and consumption processes. This shift encourages firms to:

- Innovate in product design (modular, durable, repairable).
- Develop take-back and reverse logistics systems.
- Engage in collaborative ecosystems.
- Shift from ownership-based models to service-based ones (Lacy &Rutqvist, 2015).

Firms adopting CE principles often benefit from reduced input costs, enhanced brand reputation, new revenue streams, and improved risk management associated with regulatory compliance and resource scarcity (Kirchherr et al., 2017).

3.3 Circular Economy Business Models

Circular economy (CE) business models offer a sustainable alternative to the traditional "take-make-dispose" approach by emphasizing resource efficiency, waste reduction, and product life extension. These models incorporate strategies such as reuse, recycling, remanufacturing, and regeneration into core business operations (Geissdoerfer et al., 2017), contributing to Sustainable Development Goal 13: Climate Action (Bocken et al., 2016). CE archetypes include closed-loop systems, product-as-a-service (PaaS), reverse logistics, and industrial symbiosis. Closed-loop systems, like cradle-to-cradle design, ensure materials are biodegradable or perpetually recyclable (McDonough &Braungart, 2002). Steelcase applies these principles in its disassemblable and recyclable furniture. PaaS models, where companies maintain product ownership while customers pay for use, promote durable design. Rolls-Royce's "Power by the Hour" offers jet engines as a service, improving efficiency and reliability (Tukker, 2015). Reverse logistics facilitates the return and remanufacturing of used products. Caterpillar's Cat Reman program reduces environmental impact by restoring old equipment (Guide & Van Wassenhove, 2009). Industrial symbiosis, exemplified by Kalundborg Eco-Industrial Park in Denmark, involves companies sharing resources and by-products (Chertow, 2007). Collaborative consumption models also promote circularity through shared access to goods (Botsman& Rogers, 2010). Leading companies are adopting CE strategies. IKEA aims to become fully circular by 2030 by using only renewable or recycled materials and offering furniture leasing and take-back schemes (IKEA Sustainability Report, 2021). HP's Planet Partners program has reused over 4.7 billion plastic bottles in new printer cartridges (HP Sustainability Impact Report, 2021).

4. Shared Value Creation: Aligning Business and Social Impact

In an era where global challenges such as climate change, inequality, and resource depletion are intensifying, businesses are increasingly expected to move beyond profit maximization and contribute meaningfully to societal well-being. This transition is evident in the growing prominence of Shared Value Creation (SVC), a concept that bridges the gap between business performance and social impact. Introduced by Porter and Kramer (2011), SVC emphasizes that business and society are mutually dependent and that economic success can be achieved by addressing societal challenges. This philosophy supports the core tenets of Sustainable Business Model Innovation (SBMI), particularly when integrated with the principles of the Circular Economy (CE) and aligned with global sustainability agendas like Sustainable Development Goal 13 (SDG 13): Climate Action. By redefining the role of business in society, SVC enhances both financial viability and community resilience—positioning it as a key pillar in sustainable innovation strategies.

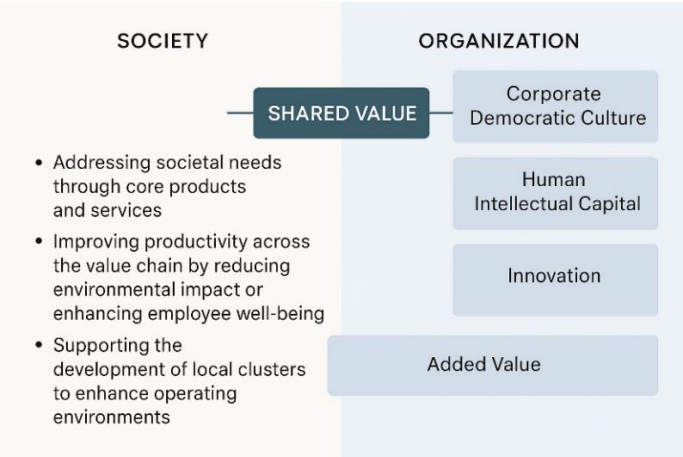
4.1 Defining Shared Value Creation (SVC) and Its Relevance to Sustainability

Shared Value Creation (SVC) refers to the strategy of generating economic value in a manner that also produces value for society by addressing its needs and systemic challenges. Unlike traditional Corporate Social Responsibility (CSR), which often functions as a peripheral activity focused on philanthropy or compliance, SVC is deeply embedded in the company's core strategic objectives (Porter & Kramer, 2011). This embeddedness makes SVC a more sustainable and scalable approach to responsible business practices. SVC contributes to sustainable development by reconceiving products and markets to serve underserved communities, redefining productivity in the value chain to reduce waste and emissions, and fostering local cluster development that enhances both business performance and community well-being. These elements reflect the broader goals of SDG 13, which calls for urgent action to combat climate change and its impacts. SVC thus expands the definition of value creation to include not only shareholders but also stakeholders—consumers, employees, local communities, and the environment—fostering long-term resilience and inclusive growth (Crane et al., 2014).

4.2 Economic and Social Value: A Dual Objective

The concept of Shared Value Creation (SVC) empowers firms to transcend the traditional dichotomy between business success and societal progress. As illustrated in the image, SVC serves as a bridge between society and the organization, fostering a dynamic interplay where corporate strategies simultaneously deliver economic value and social benefit. By addressing societal needs through core products and services, companies can embed shared value into their corporate purpose. This, in turn, reinforces a corporate democratic culture—a participative and inclusive ethos that encourages stakeholder engagement and ethical governance.

Fig. 1. SVC serves a bridge between society and the organization,



Source: Own Source

Simultaneously, organizations improve productivity across the value chain by minimizing environmental footprints and promoting employee well-being, thus contributing to both added

value and innovation. Enhancing human intellectual capital further supports continuous learning and knowledge sharing, which strengthens the organization's capacity to innovate sustainably. Moreover, by nurturing local clusters and improving operating environments (Porter & Kramer, 2011), businesses stimulate regional competitiveness while fostering broader societal welfare. This dual objective—balancing economic performance with societal impact—urges firms to fundamentally reconsider not only what they produce, but how and why they operate. Such a holistic approach creates a virtuous cycle where shared value seamlessly integrates societal and organizational priorities for long-term, inclusive growth. This dual objective—economic performance and societal benefit—requires firms to rethink not just *what* they do, but *how* and *why* they do it.

4.3 Porter & Kramer's Framework for Shared Value Creation

Porter and Kramer (2011) identified three ways firms can create shared value by aligning business success with social progress:

a. Reconceiving Products and Markets

Companies can design products that meet societal needs in underserved areas, fostering innovation and inclusive growth. For instance, Danone, through its joint venture Grameen Danone Foods, developed affordable, nutrient-fortified dairy products to combat malnutrition in Bangladesh (Yunus et al., 2010).

b. Redefining Productivity in the Value Chain

Improving resource efficiency, employee well-being, and environmental impact enhances productivity and reduces costs. Nestlé, for example, increased water efficiency in its plants, lowering costs and conserving water in regions facing scarcity (Nestlé CSV Report, 2021).

c. Enabling Local Cluster Development

Strengthening local suppliers, infrastructure, and institutions improves the business environment and resilience. IBM contributed to Kenya's ICT ecosystem by establishing research labs and collaborating with universities, fostering innovation and regional growth (Akamanzi et al., 2016).

4.4 Shared Value in Practice: Unilever and Novo Nordisk

Unilever's Sustainable Living Plan (USLP) showcases how integrating shared value can drive both social impact and business success. The USLP aims to decouple growth from environmental harm while increasing social benefits. Brands like Lifebuoy promote hygiene through handwashing campaigns, improving public health and boosting brand engagement. Dove's Self-Esteem Project enhances body confidence among youth, while Knorr supports farmers in adopting sustainable practices, strengthening the supply chain. According to Unilever's 2020 Annual Report, its Sustainable Living Brands grew 69% faster and contributed 75% of total business growth, proving that purpose-led strategies yield both social and financial returns.

Novo Nordisk aligns its business model with improving global diabetes care, especially in low- and middle-income countries (LMICs). Through its Access to Insulin Commitment, it offers insulin at a capped price of USD 3 per vial in 76 LMICs. Its Defeat Diabetes initiative promotes awareness and prevention, while support for the World Diabetes Foundation includes a commitment of DKK 1.69 billion (USD 277 million) through 2024. These initiatives expand market access and reduce disease burden, demonstrating that businesses can achieve long-term profitability by addressing critical societal challenges. Both cases affirm the power of shared value in building competitive advantage.

5. Integrating Circular Economy and Shared Value in Business Models

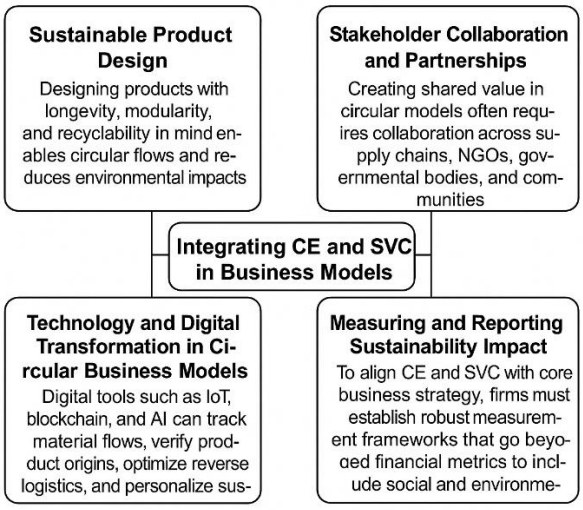
Integrating a circular economy into business models fosters sustainability by minimizing waste and maximizing resource efficiency. By designing products for reuse, recycling, and regeneration, companies can reduce their environmental footprint while creating long-term value for both shareholders and society. Shared value, on the other hand, links business success with positive societal impact by addressing social challenges through innovative solutions. When combined, these two approaches enable companies to drive economic growth, enhance customer loyalty, and promote environmental and social sustainability, making them more resilient and competitive in a rapidly changing market.

5.1 How Circular Economy Models Contribute to Shared Value Creation

Circular economy (CE) and shared value creation (SVC) are deeply interlinked. CE practices aim to reduce environmental degradation while optimizing resource use, whereas SVC focuses on simultaneously creating economic and societal value. Together, they foster **Sustainable Business Model Innovation (SBMI)** by enabling businesses to tackle systemic issues—such as climate change, inequality, and resource scarcity—through the lens of profitability and long-term value. By extending product life, regenerating ecosystems, and enhancing stakeholder inclusion, CE models naturally contribute to social outcomes (e.g., job creation in repair/remanufacturing sectors, reduced waste in communities, equitable access to services), which are central to SVC. Firms that adopt circular models often find themselves in a position to create shared value by rethinking their business roles in society (Geissdoerfer et al., 2017). Integrating circular economy principles with shared value creation enables businesses to pursue economic growth while advancing SDG 13. This involves designing climate-smart products, decarbonizing logistics and operations, and forging multi-stakeholder partnerships that focus on environmental stewardship. When companies embrace systemic change across their value chains, they not only create economic and social value but also contribute directly to global climate action targets.

5.2 Strategies for Integrating Sustainability, Circularity, and Shared Value Creation

Fig. 2. strategic approaches, Source: Own Source



To operationalize the integration of CE and SVC in business models, firms can adopt the following strategic approaches:

a. Sustainable Product Design: Designing products with longevity, modularity, and recyclability in mind enables circular flows and reduces environmental impacts. This also provides opportunities to serve underserved markets through affordability and reparability, enhancing social value.

b. Stakeholder Collaboration and Partnerships: Creating shared value in circular models often requires collaboration across supply chains, NGOs, governmental bodies, and communities. Such partnerships allow firms to tap into new knowledge, resources, and legitimacy, enabling system-level change.

c. Technology and Digital Transformation in Circular Business Models: Digital tools such as IoT, blockchain, and AI can track material flows, verify product origins, optimize reverse logistics, and personalize sustainable services. These capabilities enhance transparency and trust—cornerstones of both CE and SVC.

d. Measuring and Reporting Sustainability Impact: To align CE and SVC with core business strategy, firms must establish robust measurement frameworks that go beyond financial metrics to include social and environmental impact. Standards such as the **Global Reporting Initiative (GRI), SASB,** and**Integrated Reporting (IR)** help track and communicate value creation across dimensions.

5.3 A Step-by-Step Approach for Business Transition to Sustainable Models

Based on the literature (Geissdoerfer et al., 2020 Lüdeke-Freund et al., 2019), a practical roadmap for transitioning toward integrated CE-SVC business models involves the following stages:

1. **Diagnose current business model** using tools like the Business Model Canvas and the Sustainable Value Proposition framework.

2. **Identify sustainability challenges and stakeholder needs** relevant to the firm's sector and geography.
3. **Redesign value proposition** to reflect circularity (e.g., product-as-a-service) and social outcomes (e.g., access, inclusion).
4. **Reconfigure key resources and partnerships** to enable circular flows and local impact.
5. **Pilot and iterate** sustainable prototypes with stakeholder involvement.
6. **Measure and refine** the business model using multi-capital performance metrics.
7. **Scale** through digital platforms, alliances, and integration with public policy frameworks.

6. Challenges and Barriers to Adoption

Despite the compelling case for **Sustainable Business Model Innovation (SBMI)** through **Circular Economy (CE)**and **Shared Value Creation (SVC),** numerous challenges impede widespread adoption. These barriers span economic, regulatory, organizational, and cultural dimensions. Addressing them requires both strategic foresight and systemic support from multiple stakeholders.

6.1 Key Challenges in Adopting Sustainable Business Model Innovation

Adopting sustainable business models poses several challenges. First, high initial investment costs—such as redesigning products, establishing reverse logistics, implementing tracking systems, and training staff—can be prohibitive, especially for SMEs lacking capital and long-term focus (Bocken et al., 2020). Second, regulatory and policy misalignments often discourage innovation. Subsidies may still favor virgin materials, sustainability reporting lacks standardization, and policies vary across regions, creating uncertainty (Kirchherr et al., 2017). Third, internal resistance within companies can impede progress. Many firms remain focused on short-term profits, with sustainability siloed from core operations. Without executive support or aligned incentives, transformation efforts falter (Lozano, 2015). Lastly, consumer behavior presents a barrier. Customers may distrust the quality of recycled products, be unaware of environmental impacts, or prefer ownership over access-based models. Additionally, sustainable products often come at a premium, limiting wider adoption. Overcoming these challenges requires systemic change and strong stakeholder engagement.

6.2 Strategies to Overcome Barriers

Overcoming barriers to sustainable business model innovation (SBMI) requires coordinated strategies. Policy incentives like tax breaks, grants, green procurement, and extended producer responsibility (EPR) can promote sustainable practices. Governments can also support innovation through hubs and regulatory sandboxes (OECD, 2020). The European Green Deal and Circular Economy Action Plan are key examples. Corporate sustainability leadership is essential. When sustainability is embedded in strategy, it fosters innovation and accountability. Patagonia exemplifies this, with board-level environmental commitments shaping product design and operations (Bocken& Short, 2014).

Stakeholder engagement strengthens SBMI through co-creation with customers, NGOs, and

communities. Philips, for instance, involved African communities in developing solar lighting, ensuring relevance and adoption (UNDP, 2018). Education and awareness campaigns further support SBMI. Tools such as eco-labeling, storytelling, and marketing can shift consumer behavior. Loop's reusable packaging system educates consumers and encourages sustainable choices through branding and convenience.

7. Future Trends and Opportunities in Sustainable Business Models

The future of SBMI is being shaped by climate commitments, stakeholder expectations, and technological advancements. Businesses aligning with Sustainable Development Goal 13 are adopting green technologies, tracking emissions, and joining climate coalitions, supported by a rise in ESG investing and science-based targets. Green Technology and Digital Innovation: Green technologies like renewables and carbon capture, when integrated with AI, IoT, blockchain, and big data, enable real-time monitoring, predictive maintenance, and automated reporting (Antikainen et al., 2018; Lüdeke-Freund et al., 2019). For instance, Schneider Electric uses digital tools to optimize energy use in buildings, reducing emissions and costs. Localized and Decentralized Production: Technologies such as 3D printing and microgrids support local manufacturing, cutting emissions and improving supply chain resilience. IKEA, for example, is piloting local furniture repair hubs to reduce waste (Bocken&Geradts, 2020) Blockchain for Transparency: Blockchain improves supply chain traceability, ensuring ethical sourcing and environmental accountability. Companies like Provenance and Everledger use blockchain to authenticate products and support fair practices (Saberi et al., 2019). Impact-Driven Startups and B Corps: Startups like "Too Good To Go" create environmental and social value through innovation. The B Corp movement certifies firms that prioritize governance, community, and the environment, with over 6,000 certified companies globally (B Lab, 2023). The Role of Stakeholders: Governments enable SBMI through policies like carbon pricing and innovation incentives (e.g., EU Taxonomy). Businesses must show purpose-led leadership focused on long-term value (Eccles & Klimenko, 2019). Consumers, especially Gen Z and Millennials, are demanding sustainable, transparent brands, influencing market trends and pushing firms to adapt.

8. Conclusion and Recommendations

The transition from traditional linear business models to Sustainable Business Model Innovation (SBMI) marks a vital evolution in how businesses contribute to economic, environmental, and social well-being. SBMI presents a comprehensive approach that embeds sustainability at the heart of business strategy, shifting the focus from short-term gains to long-term value creation for all stakeholders (Geissdoerfer et al., 2018). By integrating Circular Economy (CE) principles, organizations can reduce waste, optimize resources, and regenerate systems through innovative models like product-as-a-service and industrial symbiosis (Kirchherr et al., 2017). Concurrently, Shared Value Creation (SVC) aligns business success with societal progress, enabling firms to redefine productivity and address community needs while remaining competitive (Porter & Kramer, 2011). However, this transformation demands systemic change, technological advancement, and active stakeholder engagement (Bocken et al., 2020). While challenges such as regulatory uncertainty, cultural inertia, and shifting consumer expectations remain (Lozano, 2015),

the emergence of technologies like AI and blockchain, and innovative frameworks such as B Corps, offer promising pathways forward (Antikainen et al., 2018; B Lab, 2023). In today's world of ecological crisis and social inequality, integrating CE and SVC is not just an option—it is a necessity. With bold leadership and collaborative innovation, a sustainable business future is attainable.

9. Recommendations

To accelerate the transition toward sustainable business practices, coordinated action is needed across businesses, policymakers, consumers, and civil society. Businesses should embed circular economy and shared value principles into their core strategies and governance structures, ensuring sustainability is central to decision-making. Investment in digital technologies can enhance transparency, enable better resource management, and drive innovation. Collaboration across the value chain is essential for co-creating inclusive and regenerative business models, while performance metrics should be redefined to reflect triple bottom line outcomes—economic, environmental, and social. Policymakers play a crucial role by offering incentives such as tax relief and subsidies to encourage sustainable innovation. Regulatory frameworks must be aligned to support circular practices and ensure equitable market access. Additionally, fostering supportive ecosystems through education, startup incubators, and public-private partnerships can further enhance sustainable development. Consumers and civil society also hold significant influence; by demanding transparency and supporting responsible businesses, they can help shift market dynamics. Promoting sustainability literacy is equally important, as it empowers individuals to make informed, conscious consumption choices that reinforce sustainable practices across society. Together, these collective efforts can catalyze a more resilient, equitable, and regenerative economy.

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