

From Circular Design to Stakeholder Dynamics: A Process Model of Business Model Evolution under Sustainability Tensions

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ABSTRACT

This study develops a process-oriented framework to explain how circular economy (CE) business models evolve under conditions of stakeholder complexity and institutional heterogeneity. While prior research has emphasized the design and configuration of circular systems, it has paid limited attention to the dynamic processes through which such models emerge and adapt over time. Drawing on

an in-depth qualitative case study of an emerging market initiative by a Japanese manufacturing firm, this study examines how business model transformation unfolds through iterative interactions among diverse stakeholders. The analysis reveals that CE business model evolution proceeds through a sequence of phases—opportunity recognition, field-based learning, business model reconfiguration, ecosystem formation, and circular integration. Across these phases, a recurring mechanism is identified in which stakeholder contention triggers innovation, leading to temporary alignment (synergy), which subsequently generates new tensions as the system expands. Based on these insights, the study proposes a set of propositions that conceptualize CE transformation as a dynamic contention–synergy cycle. By integrating sustainability transition research, business model innovation, and stakeholder theory, the study contributes to a more nuanced understanding of sustainable business transformation as an ongoing, interaction-driven process. The findings offer important implications for both theory and practice, highlighting the central role of stakeholder dynamics in shaping business model evolution in complex and uncertain environments.

Keywords: Circular Economy, Business Model Evolution, Stakeholder Dynamics, Sustainability Transitions, Ecosystem Orchestration

INTRODUCTION

The transition toward a circular economy (CE) has become a central concern in both academic research and managerial practice,

as firms face increasing pressure to reconcile economic performance with environmental sustainability. Existing research has emphasized the importance of redesigning products, improving resource efficiency, and developing circular business models that enable reuse, recycling, and regeneration. CE research further suggests that sustainability-oriented transformation depends on system innovation, stakeholder cooperation, and business model change (Geissdoerfer et al., 2017). These studies have significantly advanced our understanding of how firms can move beyond linear “take–make–dispose” models toward more sustainable systems of value creation.

However, despite this growing body of research, a critical gap remains. Much of the literature treats circular economy transformation as a design or optimization problem, focusing on how firms can configure products, technologies, and value chains to achieve circularity. While these perspectives provide valuable insights, they often overlook the dynamic and contested nature of sustainability transitions. In practice, circular economy initiatives rarely unfold in a linear or harmonious manner. Instead, they are shaped by ongoing interactions among multiple stakeholders, each with distinct interests, constraints, and expectations.

This limitation becomes particularly salient when firms operate in complex and heterogeneous environments. Circular economy implementation requires coordination among a wide range of actors, including suppliers, distributors, customers, regulators, and recycling partners. Corporate sustainability practices are shaped by heterogeneous stakeholder influences from economic, social, and ecological actors (Sharma & Henriques, 2005). These actors do not necessarily share the same objectives. For example, efforts to enhance recyclability may increase production costs, creating tension between environmental goals and economic viability. Similarly, the introduction of new technologies may require behavioral changes among users, leading to resistance or misalignment. As a result,

circular economy initiatives are often characterized by competing demands and conflicting logics.

Recent research in sustainability and organization theory has begun to address these challenges by highlighting the role of tensions and paradoxes in organizational change. At the firm level, cognitive frames shape how managers interpret and respond to competing economic, environmental, and social demands (Hahn et al., 2014). Studies on sustainability transitions emphasize that firms must navigate competing objectives, such as short-term profitability versus long-term environmental impact, or global standardization versus local adaptation. At the same time, research on stakeholder interactions suggests that firms are embedded within networks of relationships in which value is co-created but also contested. These perspectives point to the importance of understanding circular economy transformation as a dynamic process shaped by stakeholder interactions rather than as a purely technical or strategic design problem.

Building on this insight, this study introduces a process-oriented perspective on circular economy transformation by focusing on the dynamics of stakeholder contention and synergy. Specifically, the paper draws inspiration from recent work that conceptualizes sustainable development as a process involving both conflicts and alignments among stakeholders (Wakayama & Park, 2024). Rather than assuming that stakeholders naturally converge toward shared goals, this perspective recognizes that tensions are inherent and can play a productive role in driving innovation and adaptation.

In this study, we extend this perspective by examining how circular economy business models evolve through iterative cycles of stakeholder contention and temporary synergy. We argue that circular economy transformation is not a one-time shift from linear to circular models, but an ongoing process in which firms continuously reconfigure their business models in response to emerging tensions. These tensions arise from multiple sources, including economic

constraints, technological limitations, and institutional conditions. Firms must navigate these tensions by adjusting product design, restructuring value chains, and redefining relationships with stakeholders.

To explore this process, the study adopts a qualitative, single-case approach based on an in-depth analysis of a packaging system innovation. The case provides a rich empirical context in which to examine how circular economy initiatives are developed and implemented in practice. Rather than treating the case as a source of generalizable evidence, we use it as an analytical device to illustrate and refine theoretical propositions. This approach allows us to bridge empirical insights with conceptual development, contributing to theory building in the fields of circular economy, international business, and sustainability.

The primary contribution of this study is the development of a process model that captures the dynamic interplay between stakeholder contention and business model evolution in circular economy contexts. By integrating insights from sustainability transitions, business model innovation, and stakeholder theory, the study advances a more nuanced understanding of how circular systems emerge and evolve over time. In particular, the paper makes three contributions.

First, it shifts the focus of circular economy research from static design to dynamic processes. While prior studies have emphasized the importance of product and business model design, this study highlights that circularity is achieved through ongoing adaptation rather than initial configuration. This perspective underscores the importance of temporal dynamics and iterative learning in circular economy transformation.

Second, the study contributes to the literature on business model innovation by conceptualizing it as a response to stakeholder tensions. Existing research has examined how firms innovate their business

models in response to technological change or market opportunities. This study extends this view by showing that stakeholder conflicts can serve as a key driver of business model evolution, prompting firms to reconfigure their activities and relationships.

Third, the study contributes to stakeholder theory by introducing the concept of a contention–synergy cycle. Rather than viewing stakeholders solely as sources of constraints or support, the study conceptualizes their interactions as dynamic processes that involve both conflict and alignment. This perspective provides a more realistic account of how firms engage with stakeholders in complex and uncertain environments.

The remainder of the paper is structured as follows. Section 2 provides a systematic review of the literature on circular economy, business model innovation, and sustainability transitions, identifying key themes and gaps. Section 3 develops the analytical framework, introducing the stakeholder contention–synergy cycle model. Section 4 explains the qualitative case study design and analytical approach. Section 5 presents the case analysis, illustrating how circular economy business models evolve through iterative stakeholder interactions in practice. Section 6 develops a set of propositions based on the integration of theoretical arguments and empirical insights. Section 7 discusses the theoretical and managerial implications of the findings. Finally, Section 8 concludes by summarizing the study’s contributions, limitations, and avenues for future research.

LITERATURE REVIEW: BRIDGING SUSTAINABILITY AND BUSINESS MODEL RESEARCH

Sustainability Research: Institutional Conditions, Transitions, and Multi-Stakeholder Dynamics

The sustainability literature has evolved significantly from firm-level environmental practices toward a broader systems perspective

that incorporates institutional conditions, policy environments, and multi-stakeholder interactions. A key insight from recent research is that sustainability outcomes are highly heterogeneous and contingent upon institutional and capability configurations.

First, studies emphasize the role of institutional and capability conditions in shaping firm-level sustainability performance. For instance, Andreou et al. (2026) demonstrate that firms operating within stronger institutional environments—characterized by advanced technological infrastructure, human capital, and legal systems—achieve greater emissions reductions under the same regulatory regime. Similarly, Castaldi et al. (2026) show that regional sustainability transitions depend on pre-existing technological and market-related capabilities, suggesting that sustainability is deeply embedded in path-dependent capability development processes. These findings align with earlier work on national innovation systems and capability-based views of sustainability transitions.

Second, sustainability is increasingly conceptualized as a system-level transition rather than isolated firm behavior. Research on policy mixes (Juntunen & Shakeel, 2026) highlights that combinations of regulatory, market, and infrastructural conditions determine the speed and direction of transitions. Likewise, Gebhardt et al. (2026) demonstrate that market-based environmental policies are more effective than command-and-control regulations in driving radical clean technologies, reinforcing the importance of incentive structures in shaping innovation trajectories. Complementing this, Dehler-Holland (2025) conceptualizes sustainability transitions as dynamic policy–technology co-evolution processes, emphasizing feedback loops and temporal dynamics.

Third, recent research foregrounds the importance of multi-stakeholder co-creation and coordination in addressing grand challenges. In particular, coordination mechanisms and intermediaries play a critical role in aligning heterogeneous actors. In circular

economy contexts, Rainville (2021) shows that intermediation can support such coordination by articulating demand, aligning government and industry goals, fostering cooperation among industry actors, and translating technical and market knowledge into actionable specifications. De Silva et al. (2026) identify paradox management capabilities as critical for navigating tensions inherent in collaborative sustainability initiatives. Similarly, Gibert and Plantec (2026) introduce the notion of the “cursed catalyst,” showing that innovation intermediaries simultaneously generate synergies and dis-synergies across stakeholders. These findings resonate with broader work on collaborative innovation and stakeholder theory, suggesting that sustainability outcomes emerge from complex interaction dynamics rather than unilateral firm actions.

Fourth, sustainability research increasingly adopts a paradox perspective, recognizing the inherent tensions between economic and social objectives. Strøm-Andersen et al. (2026) show that firms face structural conflicts between efficiency-driven business logics and sustainability goals, often requiring system-level coordination beyond firm boundaries. Pflitsch and Menzel (2026) further argue that productive “dissonance” between competing value systems can act as a driver of transformative change. This aligns with the growing literature on sustainability paradoxes (e.g., Jay, 2013; Smith & Lewis, 2011), which frames sustainability as an ongoing process of tension management rather than resolution.

Finally, emerging work highlights the directionality and dynamics of sustainability innovation. Giarratana et al. (2026) demonstrate that different scientific trajectories yield heterogeneous sustainability outcomes, while Bento et al. (2025) introduce “decline functions” to explain how unsustainable technologies phase out. Together, these studies suggest that sustainability involves both the creation of new systems and the dismantling of existing ones.

In sum, the sustainability literature can be synthesized into four core dimensions: (1) institutional and capability conditions, (2) system-level transition dynamics, (3) multi-stakeholder interaction, and (4) paradox management.

Business Model Research: Innovation, Adaptation, and Value Creation Mechanisms

In parallel, the business model literature has developed as a central framework for understanding how firms create, deliver, and capture value, particularly under conditions of technological and market change.

First, business model innovation (BMI) is widely recognized as a key driver of firm performance. Early foundational work already emphasized that sustainable technologies require business model reconfiguration for market acceptance (Bohnsack et al., 2014), a view that has been reinforced by recent studies. Najafi-Tavani et al. (2025) show that both novelty-centered and efficiency-centered BMI enhance export performance through differentiation and cost advantages, respectively. Hock-Doepgen et al. (2025) further identify micro foundations of BMI, emphasizing managerial capabilities such as advice-seeking and coordination flexibility. These findings extend earlier work by Zott and Amit (2010) and Teece (2010), highlighting BMI as a dynamic capability.

Second, business models are shaped by environmental and technological changes. Raj and Eggers (2025) demonstrate that the emergence of digital platforms restructures industry competition and forces firms to reconfigure their business models. Similarly, Springer et al. (2025) conceptualize industrial platforms as meta-organizations, where value creation depends on governance and ecosystem design. These studies align with the broader literature on digital transformation and platform ecosystems.

Third, the literature highlights the role of business models in strategic adaptation and resilience. Li et al. (2025) show that BMI mediates the relationship between entrepreneurial decision-making (effectuation) and resilience in international distribution channels. Klein et al. (2025) demonstrate that business model design moderates firms' responses to external pressures such as media scrutiny. Together, these studies suggest that business models serve as adaptive mechanisms linking external shocks to organizational responses.

Fourth, business models are increasingly studied in international and digital contexts. Natarajan et al. (2026) introduce the concept of "digital dampening," showing that hybrid digital–non-digital business models may constrain international expansion. Chabowski et al. (2025) extend this perspective by proposing sustainable international business model innovations within a circular economy framework.

Fifth, recent research recognizes that business models are not purely economic constructs but are also shaped by values, cognition, and attention. Sergeeva and Zott (2025) show that founders' values can drive radical BMI, while Eklund et al. (2025) highlight the role of managerial attention in shaping strategic action. Benner and Beunza (2025) further demonstrate how external evaluative actors influence innovation trajectories through framing mechanisms.

Finally, research on servitization (Nasirov & Castaldi, 2025) and technological diffusion underscores the role of business models in reducing uncertainty and enabling adoption of new technologies.

Overall, the business model literature can be organized into four key themes: (1) value creation and competitive advantage, (2) environmental adaptation and transformation, (3) internationalization and digitalization, and (4) cognitive and value-based drivers.

Toward an Integrated Perspective: The Missing Link

Despite their parallel development, sustainability and business model research remain insufficiently integrated. Business model innovation has increasingly been viewed as a catalyst for sustainability transitions, but such innovation must be understood as embedded in broader socio-technical systems of institutions, infrastructures, technologies, and actors (Bolton & Hannon, 2016). Sustainability studies primarily focus on macro- and meso-level dynamics—institutions, policies, and stakeholder systems—while business model research concentrates on firm-level value creation mechanisms. Although Chabowski et al. (2025) propose an integrative framework linking sustainability and business models, the interaction dynamics between stakeholders and business models remain underexplored.

In particular, existing research has not sufficiently addressed: (1) How stakeholder contentions (conflicts) and stakeholder synergies (collaboration), co-evolve within business model innovation processes, and how these dynamics shape sustainability outcomes over time.

Building on the “contention–synergy dynamics” perspective (e.g., cassava-based beer case) (Wakayama & Park, 2024), this study aims to bridge this gap by developing a framework that integrates: sustainability transitions (macro level), stakeholder interaction dynamics (meso level), and business model innovation (micro level).

This integrative approach provides the foundation for a proposition-based theoretical model that advances both sustainability and business model research.

AN INTEGRATED FRAMEWORK OF STAKEHOLDER DYNAMICS AND BUSINESS MODEL EVOLUTION FOR SUSTAINABILITY

Conceptual Foundation: From Static Alignment to Dynamic Interaction

Building on the preceding review, this study develops an integrated framework that reconceptualizes sustainability not as a

problem of static alignment among actors, but as a dynamic process shaped by ongoing interactions between stakeholders and evolving business models. This perspective is consistent with recent process-oriented research emphasizing that sustainability transformation unfolds through fine-grained interactions between firms and stakeholders. For instance, Wakayama & Park (2024) demonstrate that sustainable development is driven by iterative cycles of firm–stakeholder contentions and synergies, rather than linear alignment processes. Their findings highlight that micro-level tensions—such as conflicts over value distribution, technological feasibility, and institutional constraints—play a critical role in shaping adaptive responses and innovation trajectories.

Furthermore, prior work on circular economy has largely focused on structural and design-oriented aspects of resource circulation and system configuration (Nuralieva & Park, 2023). While these studies provide important insights into the architecture of circular systems, they pay limited attention to the dynamic processes through which such systems emerge and evolve. Building on these insights, the present study extends the literature by explicitly integrating stakeholder interaction dynamics into the analysis of business model evolution.

Existing research has generated important insights into sustainability transitions at the institutional level and into business model innovation at the firm level. However, these streams remain insufficiently connected, often treating sustainability outcomes as either externally imposed constraints or internally driven strategic choices. This separation obscures the relational nature of sustainability challenges, which unfold through continuous negotiation among heterogeneous actors with divergent interests, values, and capabilities.

To address this limitation, the present study adopts a multi-level perspective that simultaneously considers macro-level transition

contexts, meso-level stakeholder interactions, and micro-level business model mechanisms. Within this perspective, sustainability outcomes are understood as emergent phenomena that arise from the interplay between these levels rather than from any single domain. Central to this reconceptualization is the recognition that stakeholder relationships are inherently ambivalent, involving both cooperation and conflict. Accordingly, this study introduces the notion of dual interaction dynamics—stakeholder contention and stakeholder synergy—and argues that both are indispensable for understanding the evolution of sustainable business models.

Structure of the Integrated Framework

The proposed framework is organized around three analytically distinct but interdependent layers, which together explain how sustainability outcomes are generated through interaction and adaptation processes.

At the macro level, sustainability transitions are shaped by institutional environments, policy regimes, and technological trajectories that define the broader conditions under which firms operate. These contextual factors influence the nature of stakeholder expectations, the availability of resources, and the legitimacy of strategic actions. Rather than serving merely as background conditions, they actively structure the tensions and opportunities that firms encounter.

At the meso level, sustainability is enacted through interactions among multiple stakeholders, including firms, governments, non-governmental organizations, and value chain partners. These interactions are characterized by a continuous interplay between contention and synergy. Contention arises when stakeholders pursue conflicting objectives or operate under different institutional logics, while synergy emerges when complementarities enable collaborative

value creation. Importantly, these forces coexist and evolve over time, shaping the trajectory of organizational responses.

At the micro level, business models function as the mechanisms through which firms interpret and respond to stakeholder dynamics. Business model innovation involves reconfiguring value propositions, value creation processes, and value capture mechanisms in ways that address complex and often competing stakeholder demands. In this sense, business models serve as mediating structures that translate interaction dynamics into concrete organizational outcomes.

Integrated Multi-Level Framework of Sustainability, Stakeholder Dynamics, and Business Model Innovation

The relationships described above are summarized in Figure 1, which presents the integrated framework developed in this study. Figure 1 illustrates a vertically layered structure consisting of three interconnected levels. The top layer represents the macro-level sustainability transition context, including institutional environments, policy regimes, and technological systems. Downward arrows indicate that these contextual factors shape stakeholder interactions by defining constraints and opportunities. The middle layer captures meso-level stakeholder dynamics, where contention and synergy coexist as dual and interacting forces. These dynamics are represented not as linear relationships but as a bidirectional tension, reflecting the ongoing negotiation among stakeholders. The bottom layer represents micro-level business model innovation, where firms reconfigure value creation and capture mechanisms in response to stakeholder dynamics. Arrows from the stakeholder layer to the business model layer indicate that both contention and synergy act as drivers of innovation. Finally, an outcome layer (not separate but emerging from the system) represents sustainability performance, including environmental, social, and economic outcomes. Feedback loops connect outcomes back to the macro and meso levels, indicating

that successful or failed innovations reshape institutional conditions and stakeholder relationships over time.

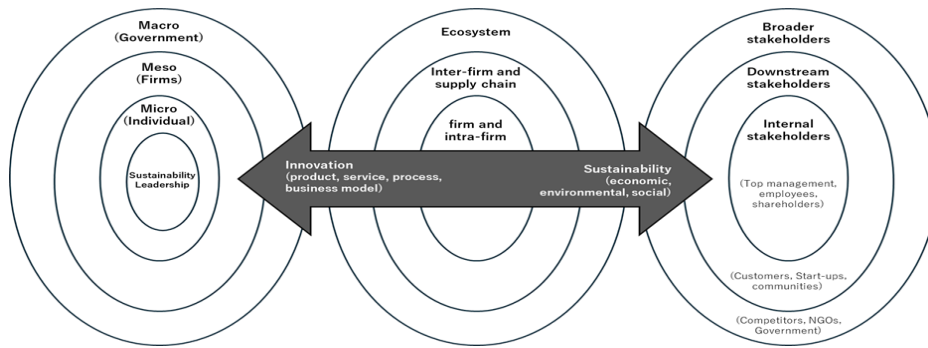


Figure 1. Integrated Framework of Stakeholder Dynamics and Business Model Evolution

Dynamic Mechanisms: The Contention–Synergy Cycle

A central contribution of this framework lies in explicating the dynamic mechanisms that connect stakeholder interactions with business model evolution. The framework suggests that sustainability transitions are driven by a recursive cycle in which contention and synergy jointly shape organizational change. This recursive mechanism is consistent with prior empirical evidence showing that sustainability-oriented innovations emerge through iterative cycles of contention and temporary alignment. Wakayama & Park (2024) provide detailed evidence of such dynamics in the context of cassava-based beer production in Africa, where firm–stakeholder conflicts over pricing, supply chain structure, and institutional arrangements repeatedly triggered adaptive reconfigurations. These findings suggest that contention is not merely a disruptive force but a

generative mechanism that enables continuous business model evolution.

Moreover, this dynamic view resonates with broader strategic research emphasizing that firms operating in complex and heterogeneous environments must continuously reconfigure their strategies and structures to maintain alignment with external conditions (Mao & Park, 2025). In this sense, business model evolution can be understood as part of a broader adaptive process in which firms respond to shifting environmental and organizational contingencies.

The process begins with the emergence of stakeholder contention, as differing interests and institutional logics come into conflict. These tensions destabilize existing business models by revealing their limitations in addressing sustainability challenges. Rather than viewing such tensions as obstacles, the framework interprets them as triggers for innovation.

Firms respond to these tensions through business model innovation, experimenting with new configurations that attempt to reconcile competing demands or strategically balance trade-offs. These innovations may enable new forms of collaboration, thereby generating stakeholder synergy. However, as these new arrangements scale and evolve, they give rise to new tensions, initiating another cycle of interaction and adaptation.

Theoretical Contributions of the Framework

The framework contributes to the literature by integrating multiple levels of analysis into a coherent explanation of sustainability outcomes. It highlights the role of stakeholder contention as a driver of innovation, thereby extending paradox theory into the domain of business model research. Furthermore, it reconceptualizes business models as dynamic mediators that translate interaction dynamics into organizational outcomes.

Implications for Theory Development

By framing sustainability as an evolving process driven by interaction and adaptation, the proposed framework provides a foundation for developing testable propositions regarding the relationships among stakeholder dynamics, business model innovation, and sustainability performance. The next section builds on this foundation to articulate a set of propositions that advance both sustainability and business model research.

METHODOLOGY: QUALITATIVE CASE STUDY DESIGN

This study adopts an in-depth qualitative case study approach to examine the dynamic evolution of a circular economy-oriented business model under complex stakeholder interactions. The focal case concerns a Japanese chemical firm (hereafter, Firm-M) and its emerging market initiative in East Africa, centered on the development and deployment of a “2-in-1 packaging system.”

Research Design and Case Selection

A single-case design was selected due to its appropriateness for theory-building research in contexts characterized by novelty, complexity, and limited prior integration of theoretical perspectives. The case represents a revelatory setting in which circular economy initiatives intersect with emerging market dynamics, multi-stakeholder coordination, and business model experimentation.

The project analyzed in this study is particularly suitable for three reasons. First, it involves a transition from a material-centric business to a solution-oriented business model that integrates product, value chain, and ecosystem design. Second, the initiative is implemented in an emerging market context characterized by institutional heterogeneity and infrastructural constraints. Third, the project

explicitly incorporates circular economy elements, including local production, recycling mechanisms, and value chain localization.

Data Collection

Data were collected from multiple sources to ensure triangulation and robustness. Primary data consist of detailed meeting records and semi-structured discussions with key stakeholders involved in the project. These include internal decision-making processes, strategic reflections, and operational challenges documented during a formal research discussion session. In addition, the project team conducted extensive fieldwork in several African countries, including interviews with approximately 50–56 stakeholders across different sectors. These interviews provided critical insights into local demand, user behavior, and institutional conditions. Secondary data include company-related materials, industry reports, and academic literature on circular economy and business model innovation.

Analytical Approach

The study employs an abductive analytical approach, iteratively moving between empirical observations and theoretical constructs. The stakeholder contention–synergy framework developed in Section 3 serves as the primary analytical lens.

The analysis proceeded in three stages. First, empirical data were coded to identify key events, decision points, and stakeholder interactions. Particular attention was given to moments of tension and collaboration. Second, these observations were categorized into broader analytical themes, including product adaptation, value chain restructuring, and ecosystem formation. Third, the study examined how these themes reflect iterative cycles of stakeholder contention and synergy, linking them to business model evolution.

Validity and Reliability

Construct validity was ensured through data triangulation across multiple sources. Internal validity was strengthened through process tracing, enabling the identification of causal mechanisms. While the study does not aim for statistical generalization, it achieves analytical generalization through theory development.

CASE ANALYSIS: BUSINESS MODEL EVOLUTION IN AN EMERGING MARKET CONTEXT

Phase 1: Opportunity Recognition and Strategic Reframing

The Kenya project undertaken by Firm-M did not emerge as a straightforward extension of existing business activities, but rather as a strategic reframing of both market opportunity and technological assets. Internally, Africa had gradually come to be recognized as a high-potential frontier market, particularly in light of broader corporate discussions regarding future growth regions and the limitations of mature markets. This strategic orientation was further reinforced by external developments, such as international policy initiatives and intergovernmental engagement related to African economic development, which signaled both institutional support and long-term demand potential.

Within this context, the project was formally initiated through an internal evaluation mechanism that periodically screens and funds new business ideas. What is notable is that the core technological element of the project—a two-component packaging system—was not newly invented for this initiative. Rather, it was rediscovered within the firm's existing technological portfolio, where it had previously failed to gain traction due to a lack of suitable market applications. The reframing of this technology as a solution for sanitation and health-related challenges in emerging markets marked a critical shift from a product-centric to a problem-centric perspective.

At this early stage, a degree of alignment existed between corporate strategy and technological capability. However, this alignment was largely conceptual and hypothetical, as the actual conditions of the target market remained insufficiently understood. As a result, the project entered a phase characterized by both optimism and uncertainty, where the viability of the business model depended heavily on empirical validation.

Phase 2: Field-Based Learning and Demand Articulation

Recognizing the limitations of desk-based analysis, the project team undertook extensive fieldwork across multiple African countries, including Kenya, Tanzania, Uganda, and South Africa. This phase represents a critical departure from conventional top-down market entry approaches, as the team prioritized direct engagement with local stakeholders to generate primary insights.

Through interactions with more than fifty individuals across different sectors, the team was able to uncover patterns of demand that were not readily observable through secondary data. In particular, the absence of reliable sanitation infrastructure in many environments created a latent need for portable and immediately usable hygiene solutions. This was especially evident in contexts such as mining operations, where workers operate under harsh conditions with limited access to water and sanitation facilities. Similarly, healthcare settings and urban middle-class consumers exhibited a growing awareness of hygiene and safety, suggesting the emergence of new market segments .

At the same time, this phase revealed a fundamental tension between the technological characteristics of the product and the realities of the local market. The product, as originally designed, was perceived as excessively sophisticated and costly relative to local expectations. Stakeholders described it as “over-engineered,” indicating that its quality and design exceeded what was necessary or

affordable in the target environment. This feedback highlighted a misalignment between global product standards and local value perceptions, forcing the project team to reconsider not only the product design but also the underlying assumptions about value creation.

Thus, Phase 2 can be understood as a process of demand articulation through stakeholder engagement, in which both opportunities and constraints became more clearly defined. Importantly, the tensions identified during this phase did not lead to project abandonment but instead served as a catalyst for deeper transformation.

Phase 3: Business Model Reconfiguration and Value Chain Localization

The tensions identified during field exploration prompted a fundamental reconfiguration of the business model. Initially, the project had been conceived as an export-oriented model, whereby products manufactured in Japan would be shipped to African markets. However, this approach quickly proved to be economically and strategically untenable due to cost structures, logistical constraints, and the need for local adaptation.

In response, Firm-M began to shift toward a localized production model, encapsulated in the concept of producing within the region for regional markets. This transition required a rethinking of the entire value chain, moving away from a centralized, firm-controlled system toward a distributed and collaborative configuration. Rather than relying solely on internal capabilities, the firm actively sought partnerships with local manufacturers, suppliers, and distributors.

The decision to localize production was not merely a cost-reduction strategy but also a response to broader institutional and societal expectations. Local production was seen as a way to contribute to employment generation and industrial development,

aligning the project with regional policy priorities. At the same time, it allowed for greater flexibility in adapting the product to local conditions, including modifications in materials, packaging, and functionality.

However, this transition also introduced new challenges. The value chain became more fragmented, involving multiple actors with varying levels of capability and reliability. The need to coordinate across these actors increased the complexity of operations, requiring the firm to develop new capabilities in orchestration and relationship management. In this sense, business model reconfiguration was not a one-time adjustment but an ongoing process of balancing efficiency, adaptability, and control.

Phase 4: Ecosystem Formation and Multi-Stakeholder Coordination

As the project progressed, it evolved into a broader ecosystem involving a diverse set of stakeholders, including local manufacturing partners, distribution networks, recycling firms, and institutional actors. This ecosystem was not pre-designed but emerged gradually through a series of interactions and negotiations.

A key feature of this phase is the complementary nature of stakeholder roles. Manufacturing partners contributed production capabilities, distribution partners provided market access, and other actors offered specialized functions such as recycling and logistics. The integration of these capabilities enabled the project to move beyond a product-centric model toward a more comprehensive solution.

At the same time, the expansion of the ecosystem introduced new forms of tension. The transfer of technology to local partners raised concerns about intellectual property protection and potential imitation. Differences in organizational practices and expectations created coordination challenges, particularly in aligning quality standards and

operational processes. Moreover, the diversity of stakeholder interests meant that collaboration was often accompanied by negotiation and compromise.

Thus, Phase 4 is characterized by the coexistence of synergy and contention. While collaboration enabled the pooling of resources and capabilities, it also required continuous effort to manage conflicts and maintain alignment. The firm's role increasingly shifted toward that of an orchestrator, responsible for coordinating interactions and ensuring the coherence of the overall system.

Phase 5: Toward Circular Business Model Integration

In its most recent stage, the project has begun to incorporate elements of circular economy thinking, extending its scope beyond production and distribution to include resource recovery and recycling. This represents a significant expansion of the business model, as it introduces new stakeholders and processes into the system.

One notable development is the exploration of mechanisms to incentivize the return and recycling of used products. By linking material recovery to digital payment or reward systems, the project aims to create a closed-loop system in which economic incentives align with environmental objectives. Such initiatives reflect an emerging recognition that sustainability cannot be achieved solely through product design but requires systemic integration across the value chain.

However, the implementation of circular mechanisms remains partial and experimental. Technical challenges related to material composition, as well as institutional constraints such as regulatory frameworks and consumer behavior, limit the immediate feasibility of full circularity. As a result, the project continues to evolve through iterative experimentation, with each attempt generating new insights and, in some cases, new tensions.

This phase underscores the dynamic nature of circular business model development. Rather than representing a final state, circularity emerges as an ongoing process shaped by continuous interaction between technological possibilities, market conditions, and stakeholder dynamics.

Before developing formal propositions, the findings can be synthesized into a process model that captures the dynamic evolution of the business model. As shown in Figure 2, the case demonstrates that business model transformation unfolds through a sequence of phases, each characterized by distinct configurations of stakeholder relationships and value creation mechanisms. Importantly, the transition between phases is not linear but driven by recurring cycles of stakeholder contention and temporary synergy, which collectively shape the trajectory of business model evolution.

Figure 2 illustrates the dynamic process through which Firm-M's business model evolves in an emerging market context. The model captures five sequential but interrelated phases: opportunity recognition, field-based learning, business model reconfiguration, ecosystem formation, and circular integration.

A key feature of the model is the recursive interaction between stakeholder contention and stakeholder synergy. Contention emerges when misalignments arise between technological design, market conditions, and stakeholder expectations. These tensions trigger business model innovation, leading to temporary alignment (synergy). However, as the system expands—particularly through ecosystem formation and circular integration—new tensions emerge, initiating further cycles of adaptation.

Thus, the figure conceptualizes business model evolution not as a linear progression but as an iterative and cyclical process driven by the continuous interplay between contention and synergy.

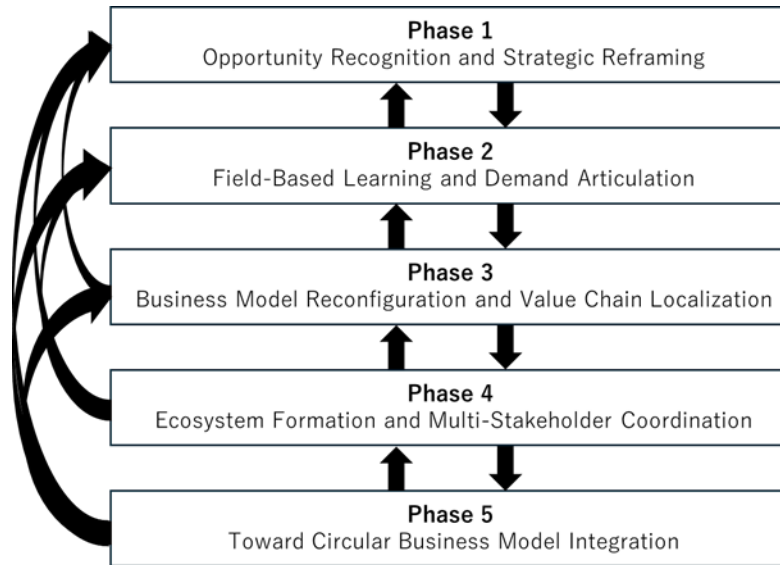


Figure 2. Process Model of Business Model Evolution through Stakeholder Contention–Synergy Cycles

PROPOSITIONS: STAKEHOLDER DYNAMICS AND BUSINESS MODEL EVOLUTION

Building on the process model (Figure 2) and integrating insights from sustainability transitions, business model innovation, and stakeholder theory, this study develops a set of propositions that explain how business model evolution unfolds through iterative contention–synergy cycles.

Proposition 1

Prior research suggests that business model innovation often originates from the recombination of existing resources and capabilities rather than entirely new inventions. For example, studies

on business model innovation emphasize that managerial cognition and strategic framing play a critical role in recognizing new opportunities embedded in existing technologies (Hock-Doepgen et al., 2025; Sergeeva & Zott, 2025) . Similarly, research on retro-innovation highlights that firms frequently revive previously underutilized technologies by repositioning them in new market contexts (De Noni et al., 2026). However, such initial alignment between technology and strategy remains inherently unstable because it is not yet grounded in contextual market realities. As Andreou et al. (2026) argue, firm responses to environmental challenges are strongly conditioned by institutional and capability contexts, implying that strategic assumptions formed in one environment may not hold in another .

Proposition 1: When firms reframe existing technologies in response to new strategic contexts, initial alignment between strategy and technological capability emerges, but this alignment remains fragile until validated within specific institutional and market environments.

Proposition 2

The importance of direct stakeholder engagement is well documented in sustainability and international business research. Multi-stakeholder co-creation studies emphasize that knowledge about complex environments cannot be fully captured through secondary data, but must be constructed through interaction (De Silva et al., 2026). Moreover, research on managerial attention shows that firms often fail to act effectively when attention is fragmented or based on incomplete representations of reality (Eklund et al., 2025) . In emerging markets, this limitation is exacerbated by institutional heterogeneity, which makes local knowledge indispensable.

Proposition 2: Direct engagement with local stakeholders enables firms to uncover latent misalignments between global assumptions and local conditions, transforming implicit uncertainty into explicit stakeholder contention.

Proposition 3

While traditional views treat stakeholder conflict as a barrier, recent research in sustainability transitions and paradox theory suggests that tensions can serve as generative forces for innovation. For instance, Pflitsch and Menzel (2026) argue that “dissonance” is not merely a constraint but a productive driver of transformation . Similarly, Strøm-Andersen et al. (2026) show that sustainability transitions are inherently shaped by conflicts between economic and societal objectives. In the business model literature, innovation is often triggered by external pressures that expose the inadequacy of existing configurations (Klein et al., 2025) .

Proposition 3: Stakeholder contention arising from mismatches between product design, market conditions, and stakeholder expectations acts as a primary trigger for business model innovation.

Proposition 4

Not all tensions lead to fundamental change. Research on business model innovation suggests that the extent of transformation depends on the magnitude of external pressure and internal capability to respond (Najafi-Tavani et al., 2025). Similarly, studies on technological transitions show that stronger pressures are more likely to induce radical shifts rather than incremental adaptation (Gebhardt et al., 2026).

Proposition 4: The intensity of stakeholder contention positively influences the depth of business model reconfiguration, increasing the

likelihood of shifts from incremental adaptation to structural transformation.

Proposition 5

International business model research highlights the tension between global standardization and local adaptation. Chabowski et al. (2025) argue that circular economy business models require context-specific adaptation across different institutional environments. At the same time, research on internationalization suggests that hybrid configurations combining global and local elements may constrain or enable expansion depending on how complementarities are managed (Natarajan et al., 2026) .

Proposition 5: In emerging market contexts, business model adaptation necessitates the reconfiguration of value chains from centralized structures to localized and hybrid configurations integrating global and local resources.

Proposition 6

As firms move beyond firm-centric models, they increasingly rely on ecosystems. Platform and meta-organization research conceptualizes such systems as “organizations of organizations” requiring new governance mechanisms (Springer et al., 2025). However, ecosystem formation inherently introduces coordination challenges. Studies on innovation intermediaries show that actors facilitating collaboration often generate both synergies and dis-synergies simultaneously (Gibert & Plantec, 2026).

Proposition 6: Ecosystem formation enables resource complementarity and value co-creation, but simultaneously generates new forms of stakeholder contention due to coordination complexity and divergent interests.

Proposition 7

Circular economy research emphasizes that sustainable business models extend beyond firm boundaries to include recycling, reuse, and system-level coordination (Chabowski et al., 2025). At the same time, sustainability transition literature highlights that such system-level expansion increases institutional complexity and requires multi-level coordination (Juntunen & Shakeel, 2026; Castaldi et al., 2026) .

Proposition 7: The integration of circular economy elements expands stakeholder boundaries, increasing system complexity and amplifying both opportunities for synergy and sources of contention.

Proposition 8

Finally, the dynamic nature of business model evolution is supported by multiple streams of literature. Process studies of firm growth highlight iterative learning and adaptation cycles rather than linear progression (Tidhar et al., 2025) . Similarly, research on technological systems emphasizes co-evolutionary dynamics between actors, institutions, and technologies (Dehler-Holland, 2025).

Proposition 8: Circular economy-oriented business models evolve through iterative cycles in which stakeholder contention triggers innovation, temporary synergy stabilizes the system, and subsequent expansion generates new tensions, leading to continuous adaptation.

DISCUSSION: THEORETICAL AND MANAGERIAL IMPLICATIONS

This study set out to develop a process-oriented understanding of how circular economy (CE) business models evolve under conditions of stakeholder complexity and institutional heterogeneity. By integrating a detailed case analysis with recent advances in

sustainability transitions, business model innovation, and stakeholder theory, the findings contribute to both theory and practice in several important ways.

Theoretical Contributions

Beyond describing empirical findings, this study offers several theoretical contributions that advance the understanding of circular economy, business model innovation, and stakeholder dynamics.

From Static Design to Dynamic Process in Circular Economy Research

First, this study advances the circular economy literature by shifting the analytical focus from static configurations of circular business models to their dynamic evolution over time. Existing CE research has predominantly emphasized design elements such as resource loops, product life extension, and recycling mechanisms (e.g., Chabowski et al., 2025) . While these perspectives provide valuable insights into what circular systems should look like, they often understate how such systems actually emerge in practice.

The present study addresses this limitation by conceptualizing circular economy transformation as an iterative process driven by stakeholder interaction dynamics. In line with recent sustainability transition research that highlights the importance of system-level co-evolution (Juntunen & Shakeel, 2026; Dehler-Holland, 2025) , our findings demonstrate that circularity is not achieved through a one-time redesign but through repeated cycles of adaptation, experimentation, and reconfiguration.

Importantly, the introduction of the contention–synergy cycle extends the CE literature by showing that tensions—rather than alignment alone—play a central role in driving transformation. This resonates with emerging work on sustainability paradoxes (Strøm-

Andersen et al., 2026) but goes further by specifying the mechanisms through which tensions translate into business model evolution.

Reframing Business Model Innovation as a Response to Stakeholder Dynamics

Second, the study contributes to the business model literature by reconceptualizing business model innovation (BMI) as a relational and interaction-driven process. Prior research has largely examined BMI in terms of value creation and competitive advantage (Najafi-Tavani et al., 2025), or as a function of managerial capabilities and cognition (Hock-Doepgen et al., 2025; Sergeeva & Zott, 2025).

While these perspectives highlight important internal drivers, they tend to treat the external environment as a backdrop rather than an active force. This study challenges that view by demonstrating that business model evolution is fundamentally shaped by ongoing interactions with heterogeneous stakeholders.

Specifically, the findings show that stakeholder contention—manifested in mismatches between product design, market conditions, and institutional constraints—acts as a primary trigger for business model reconfiguration. This extends existing research on external pressures (Klein et al., 2025) by identifying the mechanism through which such pressures are translated into structural change.

Furthermore, by linking business model evolution to ecosystem formation, the study aligns with and extends meta-organizational perspectives (Springer et al., 2025), suggesting that business models should be understood not only as firm-level constructs but also as configurations embedded within broader stakeholder systems.

Extending Stakeholder Theory: From Alignment to Productive Tension

Third, the study makes a significant contribution to stakeholder theory by shifting the emphasis from alignment and cooperation to

the productive role of tension and conflict. Traditional stakeholder approaches often assume that value is created through alignment of interests and collaborative engagement. However, recent research has begun to challenge this assumption by highlighting the paradoxical and contested nature of stakeholder interactions (De Silva et al., 2026; Gibert & Plantec, 2026).

Building on this perspective, the present study introduces a dynamic view in which stakeholder contention and synergy are not mutually exclusive but co-evolving forces. In particular, the notion that contention serves as a generative trigger for innovation extends the concept of “productive dissonance” (Pflitsch & Menzel, 2026) into the domain of business model research.

By integrating this insight into a process model, the study contributes to a more nuanced understanding of stakeholder dynamics, where conflict is not simply a constraint to be managed but a critical driver of transformation. This perspective provides a bridge between stakeholder theory and sustainability transition research, both of which emphasize the importance of multi-actor coordination under conditions of complexity and uncertainty.

A Multi-Level Integration of Sustainability, Stakeholders, and Business Models

Finally, the study contributes by offering an integrated multi-level framework that connects macro-level institutional conditions, meso-level stakeholder interactions, and micro-level business model mechanisms. While prior research has often examined these levels in isolation, the present study demonstrates how they interact dynamically over time. In doing so, it responds to calls for greater integration across sustainability and international business research (Kano et al., 2025), highlighting that meaningful sustainability transformation requires coordination across multiple levels and actors.

Managerial Implications

Beyond theoretical contributions, the findings offer several important implications for managers seeking to develop and implement circular economy business models in complex environments.

Embrace Field-Based Learning over Assumption-Driven Strategy

One key implication is the importance of direct engagement with local stakeholders. The case demonstrates that initial strategic assumptions—no matter how well grounded in internal expertise—are often insufficient in unfamiliar contexts. Managers should therefore prioritize field-based learning and iterative validation over top-down planning. This aligns with research emphasizing the importance of attention and learning in shaping strategic action (Eklund et al., 2025) and suggests that early-stage investments in stakeholder engagement can significantly reduce downstream misalignment.

Treat Tensions as Signals for Innovation, Not Failures

A second implication is that managers should reinterpret tensions not as failures but as valuable signals for innovation. Rather than attempting to eliminate conflicts between cost, performance, and local needs, firms can leverage these tensions to identify opportunities for business model reconfiguration. This perspective is particularly relevant in emerging markets, where institutional conditions and user needs often diverge significantly from those in developed economies. By embracing rather than avoiding tension, firms can enhance their adaptive capacity and resilience.

Develop Ecosystem Orchestration Capabilities

The transition from firm-centric to ecosystem-based business models requires new managerial capabilities. As the case illustrates,

coordinating multiple stakeholders with diverse interests and capabilities is a complex task that goes beyond traditional supply chain management. Managers must develop orchestration capabilities, including: Partner selection and alignment, Governance design, and Conflict resolution mechanisms. These capabilities are consistent with emerging research on meta-organizations and multi-stakeholder systems (Springer et al., 2025; De Silva et al., 2026).

Localize Value Creation While Maintaining Strategic Control

The findings also highlight the importance of balancing localization with strategic control. While local production and partnerships are essential for adapting to emerging markets, firms must carefully manage issues such as technology transfer, quality control, and intellectual property protection. This implies that managers should adopt hybrid strategies that combine global standards with local adaptation, rather than relying exclusively on either approach.

View Circular Economy as a Long-Term Evolutionary Process

Finally, managers should recognize that circular economy transformation is not a one-time initiative but a long-term evolutionary process. Implementing recycling systems, incentive mechanisms, and closed-loop models requires sustained experimentation and adaptation. Rather than seeking immediate full circularity, firms should adopt a phased approach, gradually expanding the scope of circular integration while learning from each iteration.

CONCLUSION

This study set out to develop a process-oriented understanding of how circular economy (CE) business models evolve under conditions of stakeholder complexity and institutional heterogeneity.

While prior research has largely focused on the design and configuration of circular systems, this study has emphasized that circular transformation is inherently dynamic, unfolding through iterative interactions among multiple stakeholders.

Drawing on an in-depth qualitative case analysis, the study demonstrated that business model evolution does not follow a linear trajectory from design to implementation. Instead, it emerges through a sequence of phases—opportunity recognition, field-based learning, business model reconfiguration, ecosystem formation, and circular integration—each characterized by distinct patterns of stakeholder interaction. Across these phases, the findings revealed a recurring mechanism in which stakeholder contention triggers business model innovation, leading to temporary alignment (synergy), which in turn generates new tensions as the system expands.

Based on these insights, the study proposed a set of propositions that conceptualize circular economy transformation as a contention–synergy cycle, thereby extending existing literature in three key ways. First, it contributes to circular economy research by shifting the focus from static design principles to dynamic processes of evolution. Second, it advances the business model literature by highlighting the role of stakeholder interactions as a primary driver of innovation, rather than treating business models as internally designed constructs. Third, it extends stakeholder theory by reframing conflict not as a constraint to be minimized, but as a generative force that enables adaptation and transformation.

From a managerial perspective, the study underscores the importance of engaging directly with local stakeholders, embracing tensions as signals for innovation, and developing capabilities for orchestrating complex ecosystems. It also highlights that circular economy initiatives should be approached as long-term evolutionary processes rather than one-time transformations, requiring continuous experimentation and adaptation.

Despite these contributions, the study is subject to several limitations. As a single-case analysis, the findings are not intended to be statistically generalizable, although they provide a basis for analytical generalization. Future research could extend this work by conducting comparative case studies across industries and regions to examine the boundary conditions of the proposed framework. In addition, quantitative studies could test the proposed relationships and explore the relative importance of different types of stakeholder contention and synergy. Further research may also investigate how digital technologies, such as platform ecosystems and data-driven coordination mechanisms, shape the dynamics of circular business model evolution.

In conclusion, this study highlights that the transition toward a circular economy is not merely a technical or strategic challenge, but fundamentally a relational and processual one. By foregrounding the dynamic interplay between stakeholder contention and synergy, it offers a new perspective on how firms can navigate complexity and uncertainty in the pursuit of sustainable transformation.

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