

GOVERNANCE AS A “GAME CHANGER” FOR THE CIRCULAR ECONOMY: A COMMENTARY ON CIRCULAR SUPPLY CHAIN GOVERNANCE

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INTRODUCTION

The Circular Economy (CE) is an emerging paradigm that offers the opportunity to mutually promote sustainability and competitiveness in economic systems (cf. Murray et al., 2017; Elia et al., 2017). A CE requires moving beyond linear industrial models and proposes an industrial system that is restorative and regenerative by design to keep materials at the highest value in cycles (Ellen MacArthur Foundation, 2014; Ellen MacArthur Foundation, 2017). In order to spur a systemic CE, scholars suggest transforming linear value chains into circular ones (Batista et al., 2018; Keijer et al., 2019; Nasir et al., 2017). To realize this transformation of value chain systems (cf. Porter, 1985), appropriate governance structures for a CE are required to enable superior forms of inter-organizational collaboration (Farooque et al., 2019; Fischer & Pascucci, 2017).

To convert linear governance structures into circular ones, various governments have issued policies to support the CE transition (Ghisellini et al., 2016). Although valuable insights of governmental regulation and policy interventions to achieve an adequate governance structure for CE are notwithstanding (Domenech & Bahn-Walkowiak, 2019; Termeer & Metze, 2019; Wicher et al., 2018), scholars dealing with circular value chains emphasize the necessity to investigate opportunities of organizational self-regulation (Bressanelli et al., 2019a, 2019b; Farooque et al., 2019; Winans et al., 2017). Recent literature observes that individual corporations play a crucial role in solving the governance challenge for a successful transition towards the CE (Flynn & Hacking, 2019). Firms need to take governance responsibility (cf. Pies et al., 2009) to improve underlying incentive structures for enabling a functional CE (Fischer & Pascucci, 2017). Nevertheless, a question remains to what extent, and how, firms can contribute to facilitate inter-organizational collaboration *via* self-governance for a transition away from linear towards circular value chains. Against this background, Fischer & Pascucci (2017) have recently recognized that “the main challenge faced by firms engaged in CE transition is to arrange collaboration and business relations, whilst being constrained by an institutional system that is aligned with the principles of linear economy” (Fischer & Pascucci, 2017). Hence, a successful CE transition requires creating adequate self-governance structures, which enable novel forms of collaboration and competition for various organizations with the aim to successfully orchestrate circular material flows.

Paving the Way for a Functional Circular Economy

Against this background, Schultz, et al., (2021) provide a novel perspective on CE governance mechanisms’ directions, emphasizing the ability of private firms to create functional rules by self-regulatory effort. They systematically analyze governance mechanisms in their vertical and particularly horizontal redirection (Figure 1). They find that governance mechanisms for vertical collaboration – mostly discussed in Sustainable Supply Chain Management (SSCM) literature – are of limited value to effectively close resource loops. In contrast, the authors find that particularly governance mechanisms for horizontal collaboration are able to facilitate Circular Supply Chain Management (CSCM). This requires the simultaneous development of (i) an CE-enabling environment, (ii) innovation of sustainable

(and circular) business model governance, (iii) and inter-industrial and -sectoral (trans-)formation of strategic alliances.

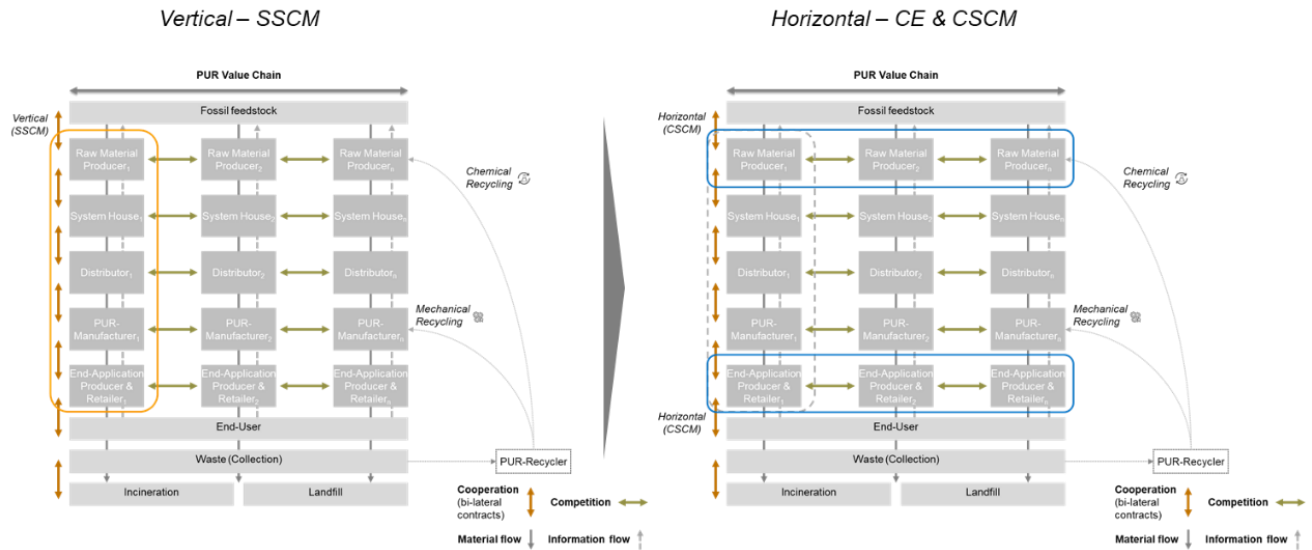


FIGURE 1
GOVERNANCE MECHANISMS' (RE-DIRECTION) (VERTICAL VS. HORIZONTAL)

The novel findings by Schultz, et al., (2021) support literature streams claiming that a CE transition needs to rely on an agreed interplay between voluntary commitments and state regulation (cf. Flynn & Hacking, 2019) since a functional CE approach requires effort from multiple actors towards (self-)governance. For Europe, policy of the European Union significantly contributes to the required transition with a CE Action Plan (European Commission, 2020) but without privately organized initiatives from companies, the CE idea is not sustainable (cf. Bressanelli et al., 2019a, 2019b). In contrast to recent strands of CE literature, which focus mainly on the latter, this article acknowledges self-governance as a complementary instrument in order to facilitate successful inter-organizational collaboration with the aim to create functional rules for collaboratively managing CE material flows within and beyond industrial value chains. This commentary claims that complementary self-regulatory effort by private firms is essential – that it is both possible and important – for successfully organizing governance mechanisms for inter-organizational collaboration that are required for transitioning from linear to circular value chains. However, further research is necessary to (a) examine governance mechanisms for inter-industrial and -sectoral collaboration in detail, (b) investigate barriers and enablers for a CE transition in the PUR industry and beyond, and (c) conceptualize sustainable (and circular) business model governance innovation to facilitate circular production (and consumption) schemes.

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