

 Overview
(/study/app/hl/sid-351-cid-762729/c)

Teacher view

 Table of
contents

 Notebook

 1. Introduction to business management / 1.3 Business objectives

Glossary

Index

- The big picture
- Vision and mission statements
- Business objectives and value
- Growth and profits: protecting shareholder value
- Ethical objectives and corporate social responsibility (CSR)
- Strategies and tactics
- Tool: Circular business models
- Terminology exercise
- Checklist
- Reflection

The big picture

Section

Student... (0/0)

 Feedback
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Assign

As you have been learning, there is an ongoing debate around the purpose of business in the economy.

- Is the primary purpose of business to earn profits for shareholders? Or is it to do something more ambitious: to distribute value to a wider range of stakeholders, creating a healthy social and ecological environment around itself?
- Is social enterprise a niche area of business? Or, given the social and ecological challenges we face, should we be expecting a higher purpose for all businesses in the 21st century?

This course, and especially this subtopic, proposes that businesses should do more to meet their social and ecological responsibilities in the 21st century. When the previous syllabus was developed, such a normative approach was less likely in a business management course. What has changed?

Theory of Knowledge

An important approach in Theory of Knowledge is to question the assumptions behind the knowledge generated by the disciplines you study. The issue of the role of business in society and the economy is often contested and raises important ethical issues.

Consider the following:

- Is the role of a business management course like this simply to describe the current state of the discipline? Or is it also to make judgements about what it should be?
- To what extent is the current business management syllabus, or this textbook, an accurate model of the contemporary academic discipline of business management and today's business environment?

Learning objectives from the IBDP Business Management guide with assessment objective level:

 Student
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- Explain and evaluate various business objectives, including CSR (AO2/ AO3)

- **Distinguish** between a vision statement and a mission statement (AO2)
- **Discuss** how strategies and tactics help businesses achieve objectives (AO3)
- **Apply and recommend** circular business models in context (AO2/AO3)

1. Introduction to business management / 1.3 Business objectives

Vision and mission statements

Vision statement and mission statement Vision statement and mission statement

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Feedback



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Planning begins with statements of purpose. The purpose, or ‘why’, of an organisation is typically expressed in vision and mission statements, which are the focus of this subtopic.

Effective organisations need to know why they do what they do. The ‘why’ of an organisation provides a focal point around which everyone in an organisation can orient themselves. A clear understanding of the ‘why’ of an organisation is important not only for an enterprise to achieve its goals, but also for employees to feel personal purpose in their work. This is essential to motivation, as you will learn in **Subtopic 2.4**.

Making connections

Just as businesses need a purpose, people need a purpose too. It is not too early to think about your own personal ‘why’. Here are two resources to help you to think about your own purpose:

Purpose Challenge (<https://purposechallenge.org/about/>): a free online toolkit aimed at high school students and designed to help them cultivate purpose. It was developed by the The Greater Good Science Center at the University of California, Berkeley.

Finding your WHY (<https://simonsinek.com/find-your-why/#tools-Ofp6t7>): a popular book and set of purpose tools by motivation coach, Simon Sinek.



Figure 1. Where is your business going?

Credit: Boy_Anupong, Getty Images



Vision and mission

Overview
(/study/app/hl/sid-351-cid-762729/)

Vision statements and mission statements are critical for everyday orientation in a business. They help employees to keep long-term goals and dreams in mind as they work through their operations. Because they serve as a central point of reference, they are also important during crises or turning points, when the company has a major challenge to tackle or decision to make. Both vision and mission statements evolve over time, but changes are usually made only after serious reflection and discussion.

Vision and mission statements must be carefully worded and taken seriously by senior management. Otherwise they will be ignored or even mocked by those working in the organisation, who also need to feel connected to the direction of the company.

Vision and mission statements are also read by interested parties outside the organisation, in order to better understand the organisation's purpose and priorities. If a business does not live up to its vision and mission, it can lose credibility in the eyes of customers and other stakeholders.

Vision statements are different from mission statements. A vision statement is a long-term goal, a dream or understanding of what the future should look like. The vision statement expresses that goal or dream in order to inspire and motivate everyone involved with the company.

A mission statement is more concrete and complements the vision. It states what the organisation does, right now, in order to achieve its vision. If the vision statement expresses what the company would like to accomplish, the mission statement describes what it actually does.

The [Ellen MacArthur Foundation](https://ellenmacarthurfoundation.org/) (https://ellenmacarthurfoundation.org/) is a non-profit organisation that is focused on circularity, a business model which is discussed in [Section 1.3.6](#) (/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/). The mission of the foundation is 'to accelerate the transition to a circular economy'. Moving to a circular economy is a key strategy for businesses to improve sustainability.



Figure 2. Keeping materials and products in use through repair is part of a circular business strategy.

Credit: Guido Mieth, Getty Images



Student view

 **Activity**

Learner profile: Thinkers

Approaches to learning: Thinking skills (creative thinking, critical thinking); Research skills (information literacy)

1. The Ellen MacArthur Foundation has chosen to articulate a mission statement, but not a vision statement.

- Have a look at the [Ellen MacArthur Foundation website](http://ellenmacarthurfoundation.org/) (<http://ellenmacarthurfoundation.org/>) to understand what the foundation does. If the foundation created a vision statement, what might an appropriate vision be?

2. Some businesses have both a vision and a mission; others have either a vision or a mission, known as a single purpose statement.

- Research two more businesses that you are familiar with and list their vision and mission or single purpose statement.
- If you were working for that business, would you find the vision and/or mission motivating? Why or why not?
- Share the results of your inquiry with other students, creating a list of well-known businesses and their visions and/or missions. Discuss to what extent these visions or missions might be motivating for employees.

 **Theory of Knowledge**

Visions and missions are usually expressed as a statement. However, some researchers believe that they might be better expressed as an inquiry question. To understand why, you need to know a little about how the brain works. This is explained in the following article:

[Want To Know What Your Brain Does When It Hears A Question?](https://www.fastcompany.com/3068341/want-to-know-what-your-brain-does-when-it-hears-a-question) (<https://www.fastcompany.com/3068341/want-to-know-what-your-brain-does-when-it-hears-a-question>)

Consider the following:

- How could businesses harness the power of questions to help their organisation achieve its goals?

2 section questions ^

Question 1

A 1 vision ✓ statement is a long-term goal, a dream or understanding of what the future should look like.



#1 vision

Overview
 (/study/app/hl/sid-351-cid-762729/c)

General explanation

A vision statement imagines what the future will look like. The vision statement expresses that goal or dream in order to inspire and motivate everyone involved with the company.

Question 2

What term describes a statement of what an organisation does, right now, in order to achieve its vision?

Mission statement

**Accepted answers**

Mission statement

Also accepted

mission statement, Mission, Mission statement

Explanation

A mission statement describes the concrete actions that an organisation is taking right now, in order to achieve its vision for the future.

1. Introduction to business management / 1.3 Business objectives

Business objectives and value

Common business objectives Common business objectives

Section

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Feedback



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Assign

Imagine that you walk into a bakery. What do you want and expect from the business? Delicious bread? Fresh coffee? Friendly staff? Comfortable seating? Good music? WiFi? All of the needs, wants and expectations that are filled by the business can be thought of as the value it creates for you as a consumer.



Figure 1. What value does a bakery create for you as a consumer?

Credit: JackF, Getty Images



Student
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Business management courses often start with the claim that businesses create value. But value is a normative term. In other words, how we perceive value is related to our individual and shared beliefs, assumptions and judgements. Different stakeholders will view value differently. The issue of value in business is therefore central to business activity, but it is also contested and changes over time.

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Relationship between value and business objectives

Value and business objectives are closely tied to one another. Broadly defined, value in a business context is any benefit experienced by a stakeholder connected to the organisation. Value comes in many different forms and can be **created** or **received** by multiple stakeholders. You can see this in **Table 1**, which is related to the bakery example.

Table 1. Value created by and received by some stakeholder groups.

| Stakeholder | Value created for the business | Value received from the business |
|-------------|--|--|
| Owner(s) | Entrepreneurship; ideas; risk-taking; financing the bakery. | Profits from the bakery that become the owners' income. |
| Consumers | Payment for the baked goods which becomes working capital to sustain the business; word-of-mouth promotion for the business in the community. | Delicious and varied baked goods; convenient opening times; pleasant 'third place' for social interactions; stable long-term presence in the character of a neighbourhood. |
| Employees | Developing and manufacturing quality products; delivering good customer service; offering ideas to improve the business. | Fair or generous wages; health leave and retirement benefits; positive working culture; skill development and learning opportunities; stable long-term employment. |
| Suppliers | Providing the (sustainable) raw materials and components needed by the business to produce its goods or services; reliable delivery to help the business plan production; responsible employment in the <u>supply chain</u> that enhances the bakery's reputation. | Fair or generous payment for raw materials so that suppliers can be socially and environmentally responsible; stable long-term supply contracts. |

The value that these stakeholders receive from a business and their interests in capturing that value will be explored further in [Subtopic 1.4 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36525/\)](#). For now, it is important to note that all of the stakeholders have a common interest and broad objective in the business being financially viable. This means that the business can at least cover its costs, or earn profit in the case of commercial businesses, or surplus in the case of social enterprises.



Student view

Business objectives can be related to any one or more of the value elements listed in **Table 1** above. A business objective is a stated outcome that a business aims to achieve. Business objectives can be stated in very broad terms through mission and vision statements ([Section 1.3.1 \(/study/app/business-hl/sid-351-cid-762729/book/vision-and-mission-statements-id-36516/\)](#)), or in specific terms by teams of people or individuals in a business. When concrete objectives are set lower in the business hierarchy, they often follow SMART criteria.

This acronym stands for:

- S – specific
- M – measurable
- A – attainable
- R – relevant
- T – time-focused

Objectives can be related to things such as growth of the business, profits, market share, customer satisfaction, ethics and sustainability. The detailed, specific objectives that could be set will be guided by big-picture thinking around vision and mission. So understanding the purpose of the business is essential for setting more concrete objectives.

3 section questions ^

Question 1

A business 1 objective is a stated outcome that a business aims to achieve.

Accepted answers and explanation

#1 objective

General explanation

A business objective is a goal or outcome, often measurable, that a business wants to achieve. Objectives can be broad, like mission and vision statements, or they can be very specific and measurable like sales objectives.

Question 2

Which of the following is **not** considered to be a value that is received by the employees of a business?

1 Fair payment for raw materials

2 Fair wages

3 Leave benefits

4 Skill development



Student view

Explanation

Home
Overview
(/study/app/business-hl/sid-351-cid-762729/c)
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Fair payment for raw materials is value received by suppliers, not employees. Fair wages, leave benefits, and skill development are all considered forms of value received by employees.

Question 3

What is the term that refers to a benefit experienced by a stakeholder connected to the organisation?

Value



Accepted answers

Value

Also accepted

value

Explanation

Value refers to a benefit experienced by a stakeholder connected to the organisation. Value comes in many different forms and can be created or received by multiple stakeholders.

1. Introduction to business management / 1.3 Business objectives

Growth and profits: protecting shareholder value

Common business objectives Common business objectives

Section

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Feedback

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As mentioned in [Subtopic 1.1 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36497\)](#), it was historically accepted that the main objective of business should be to maximise profits for shareholders or owners. This view was prioritised over other kinds of value, or over serving stakeholders other than shareholders. This view was also popularised by the influential American Economist [Milton Friedman](#) (<https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html>), when he declared in 1970 ‘the business of business is business’. But this view is changing.



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Overview
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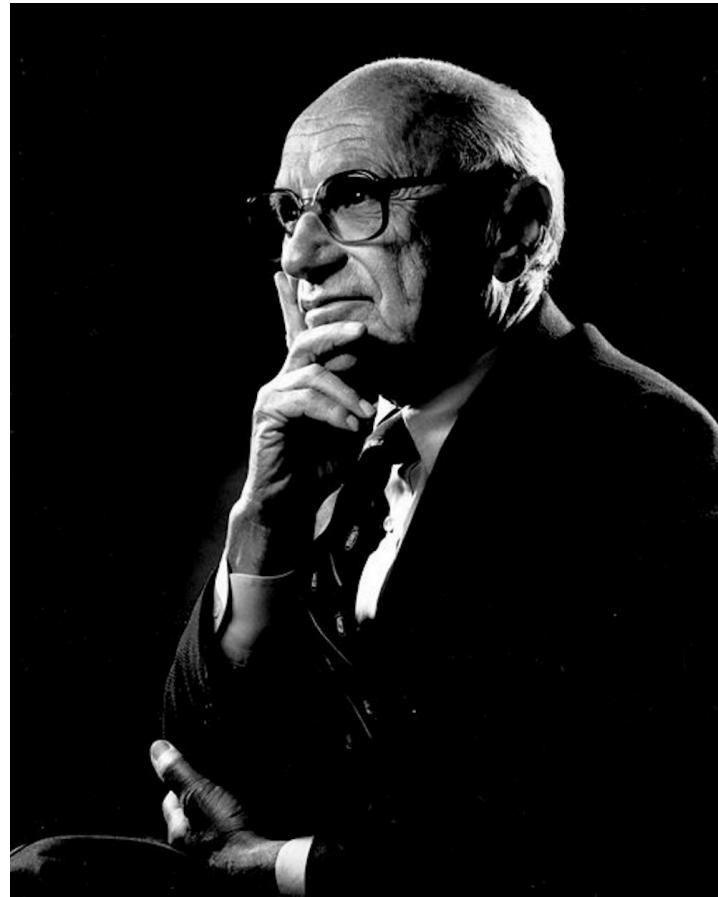


Figure 1. Milton Friedman promoted the view that the only responsibility of businesses is to provide profits to shareholders.

Source: The Friedman Foundation for Educational Choice ↗

(https://commons.wikimedia.org/wiki/File:Portrait_of_Milton_Friedman.jpg), CC0 ↗ (<https://creativecommons.org/share-your-work/public-domain/cc0/>), via Wikimedia Commons

When a business sees its main purpose as maximising profits, it prioritises value for shareholders because they receive the profits. Doing this usually involves objectives focused on growth, which you will learn more about in Subtopic 1.5 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36532/). When a business grows, it can increase its revenue and reduce its unit (average) cost of production, resulting in increased profits. As you learned in Subtopic 1.2 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/), some level of profit is desirable and necessary to sustain businesses in the private sector. And the growth and profit focus of many businesses has generated enormous wealth for shareholders and owners. However, excessive focus on growth and profit can also result in significant downsides for other stakeholders and for the natural environment.

Prioritising profits for shareholders can result in what economists call excessive value extraction. This is where one group of stakeholders captures for itself a very large portion of the value created by the business. This can occur, for example, when shareholders take very large profits from the business. These profits may have been earned by paying workers below the living wage, cutting costs by using processes that damage the environment, or by starving the business of the investment needed to sustain it in the long term.

This kind of value extraction is more likely to occur where shareholders or business managers are only considering short-term profit-making objectives, rather than the long-term health of the business. The average holding time of stocks declined from eight years in the mid-20th century to just five months ↗

Overview
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762729/c

(<https://www.reuters.com/article/us-health-coronavirus-short-termism-anal-idUSKBN24Z0XZ>) in 2020. It is clear from this that many shareholders do not have a long-term perspective.

Theory of Knowledge

The meaning of the word ‘value’ in a business context has been contested over time. This leads to some interesting Theory of Knowledge questions:

- If we agree that businesses should be creating value, how do different understandings of ‘value’ impact the way businesses behave?
- To what extent is profit a good indicator of the value that businesses create?
- To what extent is the price of a product an indicator of value?

In the following video, economist Mariana Mazzucato explores the meaning of value creation for business and the economy. She highlights the need to distinguish between value creation and value extraction, two ideas which have become blurred in the modern economy.

Mariana Mazzucato is a leading economist who studies value creation in business and economies. Her website (<https://marianamazzucato.com/books/the-value-of-everything>) describes her book on the subject, entitled *The Value of Everything*. It also includes many links to other writing she has done, as well as podcasts and videos of speeches for further study.

What is economic value, and who creates it? | Mariana Mazzucato



Video 1. Economist Mariana Mazzucato discusses the meanings of and differences between value creation and value extraction.

2 section questions ^

Question 1

When a business sees its main purpose as maximising profits for shareholders, it is likely to set objectives focused on

- growth .

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**Accepted answers and explanation**

Overview
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#1 growth**General explanation**

When a business grows, it can increase its revenue and reduce its unit (average) cost of production, resulting in increased profits. These profits are distributed to shareholders.

Question 2

Which of the following terms refers to a situation where one group of stakeholders captures for itself a very large portion of the value created by the business?

1 Value extraction ✓

2 Corporate social responsibility

3 Ethics

4 Circular production

Explanation

Value extraction occurs when a business prioritises profits for shareholders over other ways of distributing value. It results in shareholders capturing a very large share of the value created by the business.

1. Introduction to business management / 1.3 Business objectives

Ethical objectives and corporate social responsibility (CSR)

Common business objectives

Common business objectives

Corporate social responsibility (CSR)

Corporate social responsibility (CSR)

Section

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Feedback



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Assign

🔑 Concept

Ethics

There are important ethical issues tied to business activity. Setting up a business means creating a dense network of people with relationships and responsibilities to each other and to the environment on which we all depend.

Businesses are increasingly seeing their objectives broaden from growth and profit, to a wider set of objectives related to corporate social responsibility (CSR).



Student
view

Overview
(/study/app/business-hl/sid-351-cid-762729/c)
Student view

The definition of CSR has changed over time. When the term was first adopted by businesses, it referred to business self-regulation and contribution to societal goals. These contributions often took the form of extra non-core business actions such as philanthropy, activism, charity or supporting employee volunteers in external organisations.

Over time, CSR has become increasingly internalised. Michael Porter's [creating shared value \(CSV\)](https://www.isc.hbs.edu/creating-shared-value/csv-explained/Pages/default.aspx) (<https://www.isc.hbs.edu/creating-shared-value/csv-explained/Pages/default.aspx>) theory proposed that businesses need to move beyond traditional CSR activities to recognise that the success of businesses and the health of their communities are interdependent. CSV recognised that engaging to solve social and environmental problems linked to a business could ultimately improve the bottom line of that business, and it is an important way to maximise profits.

Most recently, CSR has evolved away from being used as a tool to maximise profit. Rather, there is an increased focus on distributing more of the value generated by the business to multiple stakeholders.

As Paul Polman, former CEO of Unilever, points out in the book [Net Positive](https://netpositive.world/) (<https://netpositive.world/>), businesses should be optimising and distributing value for multiple stakeholders instead of maximising value for just one group. This is a distributive multi-stakeholder and net positive conception of CSR and can be expressed in an inquiry question:

How can our business support thriving people, in a thriving place, while respecting the wellbeing of people worldwide and the health of the whole planet?

Responding to this question requires the business to examine its impacts on the two domains of society and the natural environment. Businesses also need to consider their impacts on both the local and global scales. Companies that take CSR seriously do not limit themselves to simply obeying laws and regulations, which may be too weak to meet ethical responsibilities. And they are not simply looking for social and environmental actions that improve profits. Instead, they are actively seeking ways to improve society and the environment through core business activities and business designs. Such businesses are called generative (regenerative) businesses, a concept that will also be explored in [Section 1.5.6](#) ([/study/app/business-hl/sid-351-cid-762729/book/generativergenerative-business-id-36546/](#)) and in a video by Kate Raworth in [Section 1.3.5](#) ([/study/app/business-hl/sid-351-cid-762729/book/strategies-and-tactics-id-36521/](#)).

The matrix in **Table 1** can help a business consider these impacts and its generative (regenerative) and distributive role.

Table 1. A matrix of questions to help a business consider its ecological and social impacts at the local and global scales.

| | Local | Global |
|------------|--|--|
| Ecological | How can our business support a thriving local natural ecosystem?  | How can our business respect the health of the whole planet?  |
| Social | How can our business support the wellbeing of local stakeholders?  | How can our business respect the wellbeing of people worldwide?  |

International Mindedness

The central question for businesses pursuing CSR requires that they examine their impact and responsibilities on a local and global scale. This is an important change from the way businesses have operated in the past, where global impacts on people and the planet were often ignored.

Many cities around the world, including [Amsterdam](https://www.kateraworth.com/wp/wp-content/uploads/2020/04/20200406-AMS-portrait-EN-Single-page-web-420x210mm.pdf) , [Melbourne](https://www.regen.melbourne/) , [Barcelona](https://doughnuteconomics.org/news/27), and a growing number of cities globally  (<https://doughnuteconomics.org/news/27>) are using frameworks like these to consider both the local and global impacts and responsibilities of their urban development.

Social responsibilities

The social responsibilities of a business are related to the human needs in the ‘social foundation’ of the inner ring (**Figure 2**) of the Doughnut Economics Model you learned about in [Section 1.1.2 \(/study/app/business-hl/sid-351-cid-762729/book/the-doughnut-economics-model-id-36500/\)](#). Some of those needs may be met through the core business. To take the bakery example in [Section 1.3.2 \(/study/app/business-hl/sid-351-cid-762729/book/business-objectives-and-value-id-36517/\)](#) again, the core business provides food, which is a basic human need. But beyond its core business, the business needs to consider its impact on and responsibility for other elements of the social foundation at the local and global scales.



Overview
(/study/app/hl/sid-351-cid-762729/c)

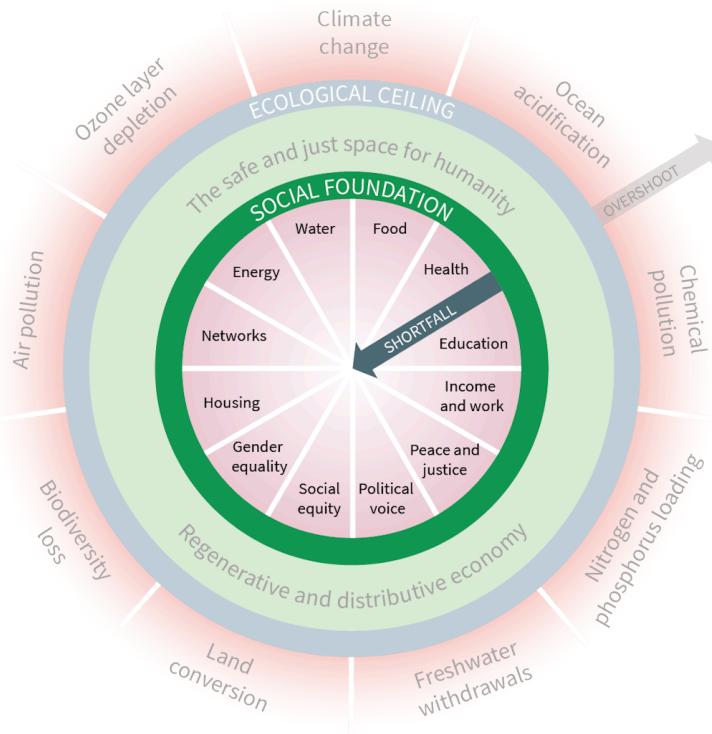


Figure 2. The social foundation of the Doughnut Economics Model helps businesses understand their local- and global-social responsibilities. (Click to enlarge image.)

Credit: Kate Raworth (<http://www.kateraworth.com/doughnut/>) and Christian Guthier. CC-BY-SA 4.0 (<https://creativecommons.org/licenses/by-sa/4.0/>)

More information for figure 2

The image is a circular diagram representing the Doughnut Economics Model. It consists of two main concentric rings. The inner ring is labeled 'SOCIAL FOUNDATION' and is divided into sections with labels like Water, Food, Health, Education, Income and Work, Peace and Justice, Political Voice, Social Equity, Gender Equality, Housing, Networks, and Energy. These sections represent societal needs that form the base of the model.

The outer ring is labeled 'ECOLOGICAL CEILING' and includes threats like Climate Change, Ocean Acidification, Chemical Pollution, Nitrogen and Phosphorus Loading, Freshwater Withdrawals, Land Conversion, Biodiversity Loss, Air Pollution, and Ozone Layer Depletion. These represent environmental limits that should not be exceeded.

In between the rings is a space labeled 'The safe and just space for humanity,' indicating the balance between meeting social needs and respecting ecological boundaries.

[Generated by AI]

Local-social responsibilities

How can the bakery business outlined in [Section 1.3.2 \(/study/app/business-hl/sid-351-cid-762729/book/business-objectives-and-value-id-36517/\)](#) support the wellbeing of local stakeholders?

Student view

For its local-social responsibilities, the bakery might consider how it can strengthen networks in the local community, provide secure employment and adequate income to its employees and attend to other basic needs of the social foundation at the local scale.



Global-social responsibilities

Overview
(study/app)
hl/sid-
351-
cid-
762729/c

How can the bakery business support the wellbeing of people worldwide?

For its global-social responsibilities, the bakery might consider how it can strengthen networks beyond its local community, perhaps by collaborating and sharing knowledge with bakeries elsewhere. It would also know its supply chain well and ensure that its suppliers are meeting their responsibilities for the basic human needs in the social foundation. The bakery would want to pay suppliers fairly and ensure that the workers harvesting the wheat or producing other supplies receive a living wage and work in good conditions.

Ecological responsibilities

As well as relating to social responsibilities, CSR relates to environmental responsibilities. These responsibilities are found at both the local and global scales.

Local-ecological responsibilities

How can the bakery business support a thriving local natural ecosystem?

For its local-ecological responsibilities, a business such as the bakery might consider how it can support and regenerate nature in its immediate area. For example, in many cities it is possible to get permission, or even partial funding, to remove paving on some wider pavements in front of buildings to plant gardens, which can clean the air, promote biodiversity and moderate urban air temperatures. Using renewable energy, greening roofs and facades, and recycling wastewater are other ways that a business can provide some of the same benefits that nature does. Acting like nature in this way is called biomimicry.

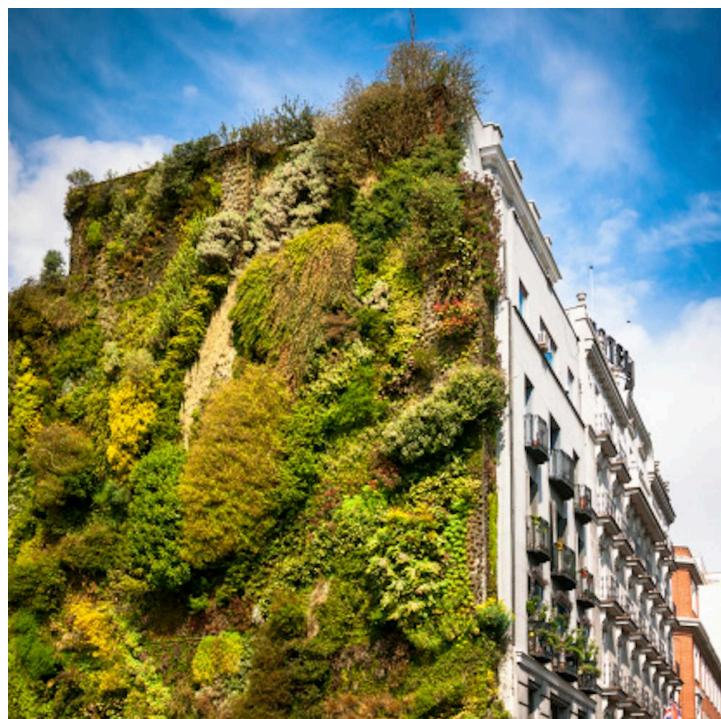


Figure 3. Businesses can improve local natural ecosystems, even in urban areas.

Credit: ferrantraite, Getty Images



Student
view

Global-ecological responsibilities

Overview
(/study/app/hl/sid-351-cid-762729/)

How can the bakery business support the health of the whole planet?

For its global-ecological responsibilities, a business such as the bakery might consider planetary boundaries, or the ecological ceiling. If you recall from [Section 1.1.2 \(/study/app/business-hl/sid-351-cid-762729/book/the-doughnut-economics-model-id-36500/\)](#), this comes from the outside of the Doughnut Economics Model (see **Figure 4** below). To meet these responsibilities, a business would need to:

- reduce its CO₂ emissions by using more renewable energy
- reduce its water usage or recycle wastewater
- source its raw ingredients from farms using regenerative agriculture that promotes biodiversity
- use transportation methods that do not cause air pollution.

All of these actions will reduce the pressure of the business on the ecological ceiling.

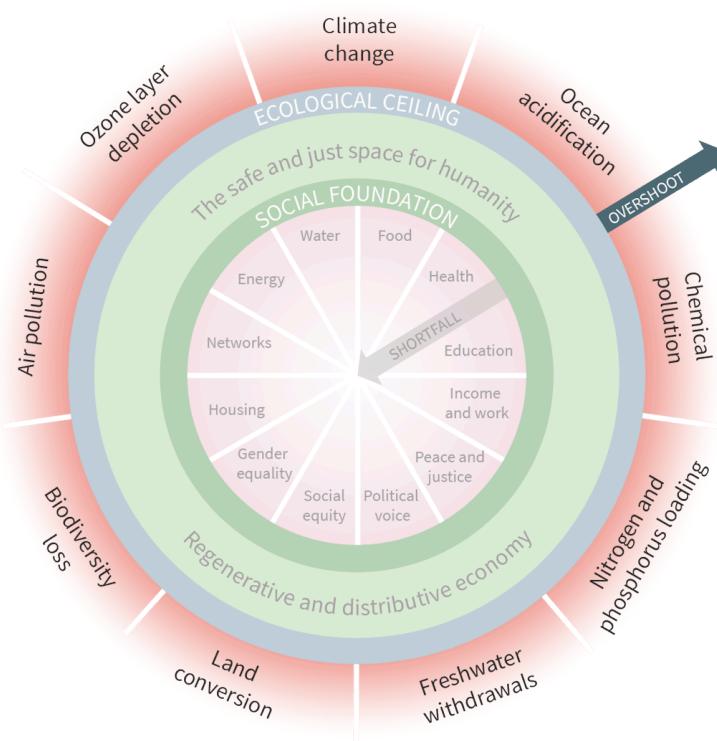


Figure 4. Businesses must reduce their impact on the planetary boundaries found in the outside of the Doughnut Model. (Click to enlarge image.)

Credit: [Kate Raworth \(<http://www.kateraworth.com/doughnut/>\)](http://www.kateraworth.com/doughnut/) and Christian Guthier. CC-BY-SA 4.0 (<https://creativecommons.org/licenses/by-sa/4.0/>).

More information for figure 4

The image displays the Doughnut Model, which illustrates a balance between the Ecological Ceiling and the Social Foundation. The outer ring, labeled 'Ecological Ceiling,' comprises various environmental factors such as climate change, ocean acidification, chemical pollution, nitrogen and phosphorus loading, freshwater withdrawals, land conversion, biodiversity loss, air pollution, and ozone layer depletion. These factors are marked as 'Overshoot' if they exceed safe environmental limits.

Student view

Home
Overview
(/study/app/hl/sid-351-cid-762729/c)

The inner ring, labeled 'Social Foundation,' includes essential societal elements like water, food, health, education, income and work, peace and justice, political voice, social equity, gender equality, housing, networks, and energy. A section labeled 'Shortfall' indicates a lack of these foundational elements.

The space between these two rings is described as 'The safe and just space for humanity' and reflects a 'Regenerative and distributive economy.' This model communicates the idea that businesses should operate within these boundaries to be sustainable, focusing on reducing pressure on the ecological ceiling while ensuring social foundations are met.

[Generated by AI]

The point is that businesses can be designed, or re-designed, to be more regenerative and distributive. The matrix questions in **Table 1** above can help to support the thinking needed to promote more responsible business purpose and practices. The internal design of business itself can also support those goals. At the end of the next section on strategy, there is a video by Kate Raworth explaining how business purpose, ownership, governance, networks, and finance can support regenerative and distributive practices.

Activity

Learner profile: Principled

Approaches to learning: Thinking skills (creative thinking)

Think about a change that your school is considering or could consider making. For example, building a new campus or wing of the school, renovating the outdoor facilities, or changing the food on offer. You may need to discuss possibilities with your teacher.

- How could that action be designed to improve social and/or ecological impacts at the local and global scales? Use the questions in the matrix in **Table 1** to brainstorm ideas for improving your school's impact and responsibility at the local and global scales.
- To what extent could a matrix like this help to improve school decision-making generally?

Evaluating ethical objectives and CSR

Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (critical thinking)

As you read through the benefits and limitations of CSR in this section below, consider classifying them in terms of the main business functions: human resources, marketing, finance and accounts, and operations. This can help you understand the benefits and limitations in the context of the entire business.

There are a number of benefits of adopting CSR. Most importantly, CSR policies and actions help businesses to improve their positive impact on society and the environment. This could be by changing their core business to focus more on human needs or on solving environmental problems, just as social enterprises do. Or it could be

 Student view

Overview
(/study/app/hl/sid-351-cid-762729/c)

through changing the value they bring to stakeholders, being more generative and distributive and thus improving ethical outcomes.

But there is also a strong business case for organisations pursuing CSR.

- Businesses pursuing long-term objectives with a social and/or environmental focus can earn higher revenue as consumers seek out businesses that align with their values. According to a [Unilever press release in 2019](https://www.unilever.com/news/press-and-media/press-releases/2019/unilevers-purpose-led-brands-outperform/) (https://www.unilever.com/news/press-and-media/press-releases/2019/unilevers-purpose-led-brands-outperform/), the book *Net Positive* (https://netpositive.world/) points out that Unilever's purpose-driven brands have grown 69% faster than the rest of the business with higher profit margins.
- Consumers are more likely to try, stay loyal to, promote and pay a price premium for purpose-led products ([The Power of Purpose, Forbes](https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=13b754fa3cf7) (https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=13b754fa3cf7)).
- Purpose-led businesses are more likely to recruit, retain and motivate talented employees ([The Power of Purpose, Forbes](https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=13b754fa3cf7) (https://www.forbes.com/sites/afdhelaziz/2020/03/07/the-power-of-purpose-the-business-case-for-purpose-all-the-data-you-were-looking-for-pt-2/?sh=13b754fa3cf7)).
- Given current environmental and social risks, purpose-led businesses that are actively engaged with modern CSR reduce their future risks and protect their reputations. They also give themselves more time to adjust to anticipated stricter social and environmental regulations from governments and from court decisions that force them to meet their obligations ([Reuters](https://www.reuters.com/markets/commodities/activists-behind-shell-climate-verdict-target-30-multinationals-2022-01-13/) (https://www.reuters.com/markets/commodities/activists-behind-shell-climate-verdict-target-30-multinationals-2022-01-13/)).



Figure 5. Purpose-led businesses are better able to recruit, retain and motivate talented employees.

Credit: Nitat Termmee, Getty Images

Despite the strong business case, there are some limitations of CSR.

- Businesses may find it difficult to change the culture of the organisation to focus on CSR. All the stakeholders may be entrenched in certain ways of doing things and it will take energy and vision to bring about change. Shareholders may need educating in the benefits of long-term objectives; managers and employees need to be given the time and support to change practices.

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Student view

- CSR may also increase costs of production in the short term, as more responsible supply chains are implemented, and training in ethics and sustainability is improved. Inputs may be more expensive for the business.
- There is also a reputational risk for the business if it does not follow through on its public CSR commitments. However, this risk is probably lower than the risk of doing nothing.

Making connections

What is ESG and how is it different from CSR?

ESG is a set of performance metrics that measure a company's Environmental Social Governance (ESG) standards. Discussions around positive business behaviour are increasingly revolving around ESG standards. This is because many long-term investors concerned about sustainability are looking for ways to more accurately measure and compare how companies are performing ([see article, The Guardian](https://www.theguardian.com/the-invested-generation/2021/nov/22/the-new-long-term-why-a-sustainable-business-approach-is-attracting-investors)) (https://www.theguardian.com/the-invested-generation/2021/nov/22/the-new-long-term-why-a-sustainable-business-approach-is-attracting-investors).

Case study

Patagonia is a US outdoor equipment and clothing company and a leader in CSR. The company originated as an alpine climbing equipment manufacturer, but changed its product portfolio over time to outdoor clothing.

In 2018, Patagonia changed its vision and mission to:

We're in business to save our home planet.

We aim to use the resources we have—our voice, our business and our community—to do something about our climate crisis.

The company is well-known for its strong sustainability policies and actions. It constantly vets its supply chain and is working to improve [the sustainability of its material inputs](https://directory.goodonyou.eco/brand/patagonia) (https://directory.goodonyou.eco/brand/patagonia). It has a circular strategy (see [Section 1.3.7](https://study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/) (/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/)), which includes a platform called [Worn Wear](https://wornwear.patagonia.com/) (https://wornwear.patagonia.com/) where customers can trade in and buy used Patagonia clothes that have been repaired by the company.



Figure 6. Outdoor clothing retailer Patagonia is a leader in CSR.
Credit: Vitalalp, Getty Images



Patagonia also considers the ethical implications of other business functions. It refuses to advertise on Facebook and Instagram, and carefully considers the financial institutions it works with. It also promotes more responsible consumption. As long ago as 2011 it had a famous '[Don't buy this jacket](https://www.patagonia.com/blog/wp-content/uploads/2016/07/nyt_11-25-11.pdf)' advertising campaign (https://www.patagonia.com/blog/wp-content/uploads/2016/07/nyt_11-25-11.pdf), and you might hear the check-out person at a Patagonia store asking, "Do you really need this shirt?" These messages encourage conscious consumerism, even though it may hinder growth in the company's sales revenue. However, Patagonia has a strong community who appreciates the company's values.

In 2021, on Black Friday (a major shopping day in some countries at the end of November), Patagonia pledged to donate 100% of sales revenue to environmental non-profits. The company raised and donated 10 million USD, five times the amount expected. Throughout the year, 1% of Patagonia's sales revenue is donated to these organisations.

However Patagonia is far from perfect on CSR. The company's size, growth and supply chain complexity present challenges for its social, environmental and ethical objectives. And its claims on sustainability make it a target for critics. But that feedback is often used to improve the company's materials, processes and policies.

Questions

1. Define corporate social responsibility (CSR). [2 marks]
2. Explain one benefit and one limitation of Patagonia's strong CSR actions and policies for the company itself. [4 marks]

Question 1

CSR is a set of actions taken by a business to improve its impact on society and the environment. Businesses hold themselves accountable for these impacts.

Define is an AO1 level command term requiring a precise meaning of a word.

- One mark for a vague definition.
- Two marks for a complete definition.
- Definitions do not require application to the stimulus material.

Question 2

One benefit of CSR for a business is that consumers are more likely to stay loyal to, promote and pay a price premium for its products. This can enable purpose-led businesses to earn higher revenues and profit. The case study points out that 'Patagonia has a strong community who appreciates the company's values' and it was able to sell five times as much on Black Friday as it expected (all of which was donated).

A limitation of CSR for a business is that pursuing CSR objectives is likely to increase the costs of production, which can reduce profits. These costs can come from sourcing more environmentally sustainable materials and products with higher labour standards. The case study points out that Patagonia 'constantly vets its supply chain and is working to improve the sustainability of its material inputs', which means that the company probably has higher costs of production.

Explain is an AO2 level command term requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- Only one benefit and one limitation need to be explained. Other responses are possible and would be rewarded if appropriate.
- To achieve full marks, you must always include theory and application to the case study in your responses.





Overview
(/study/app/
hl/sid-
351-
cid-
762729/c

3 section questions ^

Question 1

CSR stands for 1 corporate so... ✓ .

Accepted answers and explanation

#1 corporate social responsibility

General explanation

Corporate social responsibility (CSR) is a set of actions taken by a business to improve its impact on society and the environment; businesses hold themselves accountable for these impacts.

Question 2

CSR recognises that companies have obligations to which group(s)?

- 1 People, the planet and shareholders
- 2 Stakeholders (people)
- 3 The natural environment (planet)
- 4 Owners (shareholders)



Explanation

CSR is the notion that corporations have responsibilities, not just to their owners, but to society and the environment as well.

Question 3

Which word refers to the moral principles and beliefs that determine decision-making and behaviour?

- 1 Ethics
- 2 Change
- 3 Creativity
- 4 Sustainability



Explanation

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Ethics refers to the moral principles that guide decision-making. It involves what is 'the right thing to do'.



Overview

(/study/app/bu

hl/sid-

351-

cid-

762729/c 1. Introduction to business management / 1.3 Business objectives

Strategies and tactics

Strategic and tactical objectives Strategic and tactical objectives

Section

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Feedback



Print (/study/app/business-hl/sid-351-cid-762729/book/strategies-and-tactics-id-36521/print/)

Assign

Unilever is a multinational consumer products company. The company was established over 100 years ago and produces more than 400 brands in 190 different countries. Its product portfolio includes food, beauty and personal care, and home care.



Figure 1. Personal hygiene products are part of Unilever's product portfolio.

Credit: AJ_Watt, Getty Images

In 2010, Unilever introduced an ambitious plan called the [Unilever Sustainable Living Plan](https://assets.unilever.com/files/92ui5egz/production/16cb778e4d31b81509dc5937001559f1f5c863ab.pdf/uslp-summary-of-10-years-progress.pdf). This was a 10-year strategy to improve the company's sustainability. As a producer of consumer products in global supply chains, the company knew that its impact on people and the planet, positive or negative, was huge and that a comprehensive strategy was needed to ensure Unilever was meeting its global responsibilities.

However, not every goal set out in this plan was met, and Unilever received both praise and criticism for its efforts on sustainability. The company has since updated its strategy and called it the [Unilever Compass](https://assets.unilever.com/files/92ui5egz/production/f779dd94f7e62cba9cef39dd90f5aacf0f02835.pdf/compass-strategy.pdf). You will explore this in the activity below.



Student
view

Overview
(/study/app/business-hl/sid-351-cid-762729/c)
hl/sid-
351-
cid-
762729/c

💡 Concept

Change

While strategies and tactics are different types of actions in terms of scope and ambition, it is clear that both are responses to change in the external environment. They are critical to the agility and resilience of businesses large and small.

How might changes to one or more STEEPLE factors have impacted Unilever's decision to adopt an ambitious sustainability strategy?

Strategies

In this course, strategy refers to a plan that an organisation creates in order to reach a specific objective. Business strategies usually refer to significant decisions and actions and involve senior management. Successful strategies can help a business respond effectively to changes in the external environment, making a business more agile and resilient. If the vision and mission statements are about the 'why' and 'what' of a business, then strategy is related to 'how'.

Developing a successful strategy is complex. In fact, creating a comprehensive strategy is a lot like developing a business plan (see [Section 1.1.7 \(/study/app/business-hl/sid-351-cid-762729/book/tool-business-plan-id-36505/\)](#)).

Strategic planning requires:

- understanding of and connection to the vision and mission of the business
- research into the market and products connected to the strategic focus
- consideration of the influences and impact of plans on local and global scales and in the social and ecological domains (see [Table 1 in Section 1.3.4 \(/study/app/business-hl/sid-351-cid-762729/book/ethical-objectives-and-corp-social-resp-csr-id-36520/\)](#))
- analysis and evaluation of the internal strengths and weaknesses and external opportunities and threats connected with strategic plans
- sources of funding for the implementation of the strategy
- planning of milestones to evaluate progress and revise the strategy when needed



Student
view

Home
Overview
(/study/app/business-hl/sid-351-cid-762729/book/growth-and-profits-protecting-shareholder-value-id-36518/review/)



Figure 2. In business, just as in sport, formulating strategies and tactics is essential for achieving goals.

Credit: Klaus Vedfelt, Getty Images

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy); Thinking skills (critical thinking, transfer)

Access the [Unilever Compass](#) ↗

(<https://assets.unilever.com/files/92ui5egz/production/ff779dd94f7e62cba9cef39dd90f5aacf0f02835.pdf/cover-strategy.pdf>), a concise outline of Unilever's strategy to achieve its mission of making 'sustainable living commonplace'. Consider the following questions. You may want to discuss these with a partner or work on them in a group.

1. What evidence do you see in the strategy that is connected with Unilever's mission?
2. What evidence do you see in the strategy of Unilever 'meeting human needs within planetary boundaries'?
 - Identify the human needs being met by Unilever to address social sustainability. You could identify human needs from the centre of the Doughnut Economics Model or the social SDGs.
 - How is Unilever addressing environmental sustainability? To make this more concrete, you could identify planetary boundaries from the Doughnut Economics Model connected with Unilever's strategy.
3. The Unilever Compass lists stakeholders on the right-hand side of the first page. You will learn more about stakeholders in [Subtopic 1.4 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36525/\)](#). Why do you think Unilever put the stakeholders in this order?
4. The Unilever Compass devotes the majority of the first page to various growth objectives.
 - What are the different ways in which the company talks about growth?
 - To what extent are the growth objectives outlined on the first page compatible with the social and environmental objectives outlined elsewhere in the document?
5. Carry out some research on critics of Unilever's sustainability claims. Find **one** source that you think is credible, keeping these criteria for credible sources in mind and using them to justify your choice:
 - Currency: Timeliness of the information
 - Relevance: Importance of the information for your needs
 - Authority: Source of the information
 - Accuracy: Truthfulness and correctness of the information



Student view



- Purpose: Reason the information exists

Shift to circular strategies

Business strategies can take many forms. However, one shift in strategy that affects almost every business involves moving from linear production systems to circular production systems.

Linear production involves taking resources from the Earth, making products with them, and then disposing of the products. It is often referred to as a take–make–waste system.

Circular production, on the other hand, involves reducing waste by making sure that outputs of the production system feed back into the system as inputs. It also involves making product and system design decisions to plan for circularity. You will learn more about circular business models in Section [1.3.6 \(/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/\)](#).

In this section on strategy, however, it is helpful to understand the factors that are causing businesses to move towards circular systems (**Table 1**). The STEEPLE factors ([Section 1.1.6 \(/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/\)](#)) can help you to understand this trend.

Table 1. STEEPLE factors causing a shift to circular strategies.

| | |
|------------------------------|--|
| Sociocultural factors | Consumers are more aware than ever of the ethics and sustainability responsibilities of businesses. They also realise that substantial change has to occur at a systems level, and they expect businesses to work for system-wide change. |
| Technological factors | The following have all made it easier to develop new circular strategies: the ability for scientists and entrepreneurs to connect and share ideas and products globally, the widespread adoption of smartphones and other digital devices, digital payments and innovations in materials. |
| Ethical factors | It has become clear that businesses need to have a higher purpose than profit maximisation. Businesses start grounding their operations in serving people and the planet. Businesses realise that profit is a result of their success, not a goal. This paradigm shift involves ‘doing the right thing’ and is a matter of ethics in service to environmental, sociocultural and economic sustainability. |
| Political factors | Many new technologies rely on raw materials that are concentrated in only a few geographic areas. This poses risks to supply chains during global political disputes and local conflicts. For example, China dominates the global extraction and processing of rare earth elements used in a number of renewable energy technologies. Circular strategies can help to reduce the risk in global supply chains. |
| Legal factors | More and more countries are passing laws requiring businesses to source sustainable materials, design durable products and provide consumers with the ability and right to have products repaired. Carbon taxes are also more common, so that businesses have to move to models that reduce their carbon footprint. |



Overview
(/study/app/
hl/sid-
351-
cid-
762729/c



Figure 3. Technological changes have made it easier to share bicycles in a city: a circular strategy.

Credit: monkeybusinessimages, Getty Images

Tactics

A tactic is a smaller action that a business takes in order to reach its goals. Tactics involve approaches that are somewhat less important, smaller in scale, and involve shorter timeframes than strategies. And unlike strategies, tactics may be devised by less senior managers or employees.

A tactic might involve actions such as changing pricing, revising a promotion or other actions that can be reversed if necessary and are unlikely to put a business on a long-term path. Making a tactical error may be costly, but it is not likely to lead to the demise of the organisation.



Figure 4. Using a sale to clear out excess stock is a tactic, not a strategy.

Credit: tylim, Getty Images

Remember that a tactical decision for one organisation may represent a strategic decision for another, because the relative importance of a decision will depend upon the organisation itself, mainly its size. The decision by a large corporation to open another shop might be considered a tactic. For a sole proprietor, however, opening a second retail outlet might be considered a major strategic decision.



Student
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(!) Exam tip

You may be asked to identify a strategy or tactic in the context of a specific case study. Make sure you keep the difference between a strategy and a tactic in mind, so that you show understanding of the scale and importance of the two types of actions.

✿✿ Activity

Learner profile: Principled

Approaches to learning: Thinking skills (creative thinking, critical thinking)

In the video below, Kate Raworth explains the strategies that businesses can use to improve social and environmental sustainability, from 'doing nothing' all the way to 'doing the Doughnut'.

1. What are the five possibilities for business strategies around sustainability according to Raworth? (Hint: the first one is 'do nothing'.)
2. What are the five areas of internal design that affect whether a business is regenerative and distributive ("doing the Doughnut")? What does a business need to do in each design area to become regenerative and distributive?
3. In [Subtopic 1.2 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/\)](#), you learned about the various legal structures for businesses. Can you find any connections between those structures and the five areas of regenerative and distributive business design?
4. How could you include regenerative and distributive design principles into a business plan (see Business Plan Tool)?

Business Meets the Doughnut v1.0



Video 1. Economist Kate Raworth explains what businesses can do to become regenerative and distributive enterprises, improving environmental and social sustainability.

3 section questions ^

Question 1

What is the term that refers to a plan that an organisation creates to reach a specific goal?



Overview
(/study/app
hl/sid-
351-
cid-
762729/c)

Strategy

Accepted answers

Strategy

Also accepted

strategy, Strategies, strategies

Explanation

Business strategies usually refer to significant decisions and actions and involve senior management. Successful strategies can help a business respond effectively to changes in the external environment.

Question 2

A 1 tactic ✓ is a smaller action that a business takes to reach its goals.

Accepted answers and explanation

#1 tactic

General explanation

Tactics involve approaches that are somewhat less important, smaller in scale, and involve shorter timeframes. Unlike strategies, tactics may be devised by less senior managers or employees.

Question 3

Which of the following is a major strategy trend in business today that should improve sustainability?

- 1 Circular production ✓
- 2 Linear production
- 3 Value extraction
- 4 Profit maximisation

Explanation

Circular production involves reducing waste by making sure that outputs of the production system feed back into the system as inputs. It also involves product and system design decisions to plan for circularity to improve sustainability.

Businesses are moving away from linear production, value extraction and profit maximisation, so none of these can be said to be a current trend in business.

1. Introduction to business management / 1.3 Business objectives

X
Student view

Tool: Circular business models



Tool: Circular business models

Tool: Circular business models

Tool: Circular business models

Tool: Circular business models

Overview
(/study/app/hl/sid-351-cid-762729/c)
Section
Student... (0/0) Feedback

Print (/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/print/)

Assign

You may have walked through a forest and seen leaves scattered on the ground, perhaps along with plastic waste. Over the course of a few months, nature will decompose the leaves to form new fertile soil for the trees and plants. The plastic will take hundreds of years to break down.



Figure 1. Nature wastes nothing; humans waste too much.

Credit: ROBERT BROOK/SCIENCE PHOTO LIBRARY, Getty Images

Circular business models aim to get businesses to work more like nature, by designing systems that feed back outputs as inputs, and designing out waste from the start. The short video below from the Ellen MacArthur Foundation, which you learned about in [Section 1.3.5 \(/study/app/business-hl/sid-351-cid-762729/book/strategies-and-tactics-id-36521/\)](#), explains the circular economy.

Explaining the Circular Economy and How Society Can Re-think Prog...



Video 1. Explaining the circular economy.



Student
view

 **International Mindedness**

Circular models are not new. In fact, indigenous populations around the world are known for using circular strategies to live in harmony with nature and each other.

In the United Nations article below, many examples of indigenous cultures using circular strategies are highlighted.

For a truly circular economy, we need to listen to indigenous voices. 
(<https://www.undp.org/blog/truly-circular-economy-we-need-listen-indigenous-voices>)

One of the examples cited in the article is highlighted in the following video. (Note: the video in Spanish with English subtitles.)



Video 2. How a group of farmers in Costa Rica are using a circular model.

What can we learn about improving global sustainability from these cultures?

Principles of circular economy

Before exploring circular business models, it helps to understand three underlying principles that guide thinking on circularity, according to the Ellen MacArthur Foundation  (<https://ellenmacarthurfoundation.org/>).

 **Concept**

Creativity and Sustainability

Moving from a take—make—waste linear economic system to a more sustainable system that is based on circular principles depends upon designers and manufacturers thinking creatively. From the moment they have an idea about meeting a human need or solving a problem, designers and manufacturers need to consider how to embed circularity into choices of materials, manufacturing process, and the product's end of life.

This requires moving away from current materials and processes and reimaging or inventing new materials, manufacturing and recovery. New business models need to be used, requiring flexible thinking across traditional disciplines.

Table 1. Principles of a circular economy.

| Principle | Description |
|--|--|
| 1. Eliminate waste and pollution | Waste and pollution are design flaws. We can design products from the start to be circular. |
| 2. Circulate products and materials | With planning and good design, we can ensure that products can be reused, repaired or remanufactured. Food and packaging should be circulated, avoiding landfills. |
| 3. Regenerate nature | Nature wastes nothing. If we return nutrients to the Earth's systems, we can enhance and rebuild natural resources. |

Activity

Learner profile: Knowledgeable

Approaches to learning: Thinking skills (critical thinking, creative thinking)

Watch the short video below, which shows some examples of how waste is being designed out of products.

1. Describe the two innovations highlighted in the video.
2. Explain how those innovations are designing out, or eliminating, waste and pollution (the first principle of circular economy).
3. Towards the end of the video, Serena Pozza from DSM-Niaga says that circular innovations exist, but they need to be scaled up.
 - What does she mean?
 - What is the role of businesses in scaling innovations?
 - What is the role of consumers in scaling innovations?

The following two companies feature in the video :

- Notpla: packaging developed by Skipping Rocks Lab
- Niaga: closed loop mattresses

Home
Overview
(/study/app
hl/sid-
351-
cid-
762729/c

This zero-waste packaging is made from seaweed | Meet the Design...



Video 3. Examples of zero-waste packaging.

Circular business models

There are a number of circular business models that businesses can adopt to move away from linear production systems. They aim to decouple revenues from resource production to reduce resource extraction, greenhouse gas emissions, pollution and waste, and biodiversity loss. While each of these models represents a distinct strategy, most businesses engaged with circularity will adopt elements of multiple strategies. This will be explored at the end of this section by looking at the fast-fashion retailer H&M.

🔗 Making connections

The OECD has published an [extensive description and evaluation](https://www.oecd-ilibrary.org/sites/e59f8dd6-en/index.html?itemId=/content/component/e59f8dd6-en) (https://www.oecd-ilibrary.org/sites/e59f8dd6-en/index.html?itemId=/content/component/e59f8dd6-en) of all of these models. If you are interested in exploring these models in even greater depth, this OECD publication is a good place to start.



Figure 2. There are a variety of circular business models.

Credit: Doerte Siebke / EyeEm, Getty Images

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Student
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Circular supply models

Overview
(/study/app/business-hl/sid-351-cid-762729/)

Circular supply models enable businesses to reduce new material inputs, replacing them with recovered or bio-based materials. These resources can be planned into design and production decisions from the start, reducing the environmental impact in supply chains and potentially reducing the cost of resources. This model is also known as cradle-to-cradle product design, to distinguish it from the cradle-to-grave linear system. Circular supply models are modelled on natures; the outputs of a business feed back into the production process as inputs.

Resource recovery models

Resource recovery models are closely related to circular supply models. However, instead of focusing on the businesses that use the circular materials in their products, these models focus on the business collecting, sorting and processing waste materials.

According to the OECD, the three main activities involved in resource recovery models are:

- **collecting** waste materials produced by households and businesses. This is often organised by local governments but can also be done in partnership with for-profit social enterprises (see Section 1.2.3 ([/study/app/business-hl/sid-351-cid-762729/book/forprofit-social-enterprises-id-36510/](#))).
- **sorting** waste into different materials. In some cases, this is also done by local governments, perhaps in partnership with private enterprises.
- **secondary production** where waste is transformed into finished raw materials. This is usually done by companies in the private sector, which then sell the raw materials to other businesses.



Figure 3. If you use recycling bins at school or at home, you contribute to the resource recovery model.

Credit: Maskot, Getty Images

Product life extension models

Product life extension models focus on extending the time that a consumer uses products. If consumers use products longer, it reduces the amount of inputs needed to create new products. Product life can be extended in a number of ways:



Student view

- **Design for durability.** With this strategy a business produces a high quality product that is meant to last. Businesses that design durable products can charge higher prices, called premium pricing, thus earning more revenue.
- **Reuse and repair.** With this strategy, businesses ensure that products are used to the very end of their life. An example of reuse is a second-hand clothing shop. Manufacturers can also offer repair services; third parties offer such services too.
- **Remanufacturing.** With this strategy, businesses ‘reset the clock’ on their products, recovering and remanufacturing them to start a new service life. The original or third party businesses can resell products that have been remanufactured, earning revenue on a product a second time. Examples of this are smartphones and other digital devices, which are often discarded after a short time but with a little attention can be as good as new again.



Figure 4. A tailor can repair clothes, making them last longer.

Credit: Michael Moeller / EyeEm, Getty Images

Sharing models

You may have several products at home that are used only occasionally. Could those products be made available to others to use when you are not using them? The idea of sharing is not new. However, the idea of sharing with strangers is new.

Sharing models allow consumers to share use of products with strangers, reducing the new inputs needed for products that might be under-utilised by the consumer. The sharing is usually supported by online platforms that show what products are available, where they are, and when they are available. One example of such an online platform is Airbnb. The owners of the online platforms can take a small fee for the transactions.

There are other systems where businesses own and share the products (business to consumer or B2C). Consumers can also own the products and share them (consumer to consumer or C2C).

There are two general types of sharing models:

- **Co-ownership** involves the lending of physical goods. This could be the sharing of household tools and appliances through an online platform like Peerby.

- **Co-access** involves allowing others to take part in an activity that would have occurred anyway. For example sharing seats in a carpool for a particular journey.



Figure 5. Carpooling is an example of a co-access version of circular sharing models.

Credit: Hirug, Getty Images

Product service system models

Product service system models involve selling the service for using a product rather than selling the product itself. This model improves incentives for sustainable product design because the business wants the product to last a long time so that it can sell its services. There are two types of product service system models:

- **Product-oriented service system models** focus on selling products and associated after-sale services, such as maintaining or repairing the product through a contract or take-back agreement.
- **User-oriented product service system models** involve consumers paying for temporary access to products, usually through a leasing agreement. The business retains ownership of the product. An example is car-sharing, which is popular in urban areas. Netflix and Spotify also fall into this category.



Figure 6. Owning music is rare these days; people usually buy music listening services instead.

Credit: Johner Images, Getty Images

Activity

Learner profile: Inquirers

Approaches to learning: Research skills (information literacy); Thinking skills (transfer)

Option 1

The fast-fashion company H&M has partnered with the Ellen MacArthur Foundation to explore and implement circular strategies in its business.

1. Read through H&M's circular strategy (<https://hmgroup.com/sustainability/circular-and-climate-positive/circularity/#:~:text=We%20aim%20to%20create%20a,reused%20and%20remade%20multipl>).
2. Identify and explain two or three ways that H&M is using circular business models to improve sustainability. Refer specifically to the models described above. Share and discuss your results with a partner or group.

Option 2

Philips is a health technology company that has increased its use of circular strategies.

1. Read through Philips' circular strategy (<https://www.philips.com/a-w/about/environmental-social-governance/environmental/circular-economy.html>).
2. Identify and explain two or three ways that Philips is using circular business models to improve sustainability. Refer specifically to the models described above. Share and discuss your results with a partner or group.

Limitations of circular business models

Businesses are moving rapidly to circular strategies, but there are some risks and limitations posed by these models:

- **Undeveloped systems for waste recovery:** Circular supply and resource recovery models rely on well-developed systems for waste recovery, as well as a culture shift in the wider society. There needs to be enough recovered waste, at a reasonable cost, for these models to work.
- **Increased use of bio-based materials** for products may result in there being less land for food production, which could result in less biodiversity.



Figure 7. Harvesting plants (such as corn) in order to make bio-based materials to replace plastics could result in more land conversion, which would harm biodiversity.

Credit: Roelof Bos, Getty Images

- **Negative unintended consequences:** It is important to take a system view when thinking about circular business strategies, in order to avoid unintended negative consequences. For example, Airbnb has been blamed in part for raising housing costs and turning quiet neighbourhoods into noisy tourist centres in some cities.



Figure 8. Temporary apartment rentals to tourists have disrupted housing markets and degraded quiet neighbourhoods for residents.

Credit: South_agency, Getty Images

- **Rebound effects:** When businesses or consumers save money by using recycled inputs or products, they may take the savings and use them for increased production or consumption. This can negate the reduction of CO₂ emissions or the resource benefits of the circular model.
- **Circular strategies may not counter growth-oriented business models:** The core business model of some businesses may be so damaging that circular strategies are not enough to mitigate the harm. Many fast-fashion retailers have a core business model that depends on excessive consumption of clothing, so the environmental damage is likely to continue, even with circular strategies in place.
- **Circular business models do not address social issues:** Generally, circular business models are concerned with environmental and economic sustainability, but not with sociocultural sustainability. So businesses that use circular strategies must also consider other methods to address their impact on society.

Activity

There are many possible activities to help you understand and apply circular business models. For each of the business models listed in this section, see if you can:

- Explain how a business involved in that model could earn profits. Consider the costs for the business, as well as how revenues are earned.
- Identify two or three businesses using circular strategies in your city or town. Share your insights with a group. Several of you could work on a circular resource guide for the school community as a CAS project, focusing on one or more types of businesses such as second-hand clothing.

- Identify one or two ways that your school could use a circular business model to improve sustainability. Pitch the idea to your school administration to see if the plan can be implemented. This could also be a CAS project.
- Consider how your school's events or festivals could become more circular. Can you plan and implement a zero-waste school event? Again, this could make an interesting CAS project for a group of students.
- Choose a favourite household item and explain two ways in which the business that made the item could have used circular strategies to improve its sustainability. You could present your ideas to the class for feedback.
- Research whether there are regulations in your city on short-term rentals, shared bicycles or scooters, or other regulations on circular businesses that aim to mitigate unintended negative consequences.

Making connections

If you want to learn more about the circular economy or circular business models, the following resources may be interesting for you:

- [Ellen MacArthur Foundation](https://ellenmacarthurfoundation.org/)
- [Fashion Revolution](https://www.fashionrevolution.org/)

And here are some online courses:

- [Circular economy: An Introduction](https://www.edx.org/course/circular-economy-an-introduction)
- [Circular economy: An Interdisciplinary Approach](https://www.edx.org/course/circular-economy-an-interdisciplinary-approach)
- [Circular economy: Sustainable Materials Management](https://www.coursera.org/learn/circular-economy)
- [Circular Business Models for Sustainable Urban Food Systems](https://www.futurelearn.com/courses/circular-business-models-for-sustainable-urban-food-systems)
- [Circular Fashion: Design, Science and Value in a Sustainable Clothing Industry](https://www.edx.org/course/circular-fashion-in-a-sustainable-clothing-industry)

1. Introduction to business management / 1.3 Business objectives

Terminology exercise

 Section

Student... (0/0)



Feedback



Print (/study/app/business-hl/sid-351-cid-762729/book/terminology-exercise-id-36522/print/)

Assign



Overview
(/study/app/business-hl/sid-351-cid-762729/c)

Check that you understand the terminology used in this subtopic by dragging the correct word into each space.

A approach to business management involves expectations that, in the 21st century, businesses should aim for a higher purpose beyond profit-making.

In a business context, is any benefit experienced by a stakeholder connected to the organisation.

For a long time, the dominant view was that business should make its main objective to maximise profits for its

. When a business sees its main purpose as maximising profits, it is likely to set objectives

focused on

. But prioritising profits for shareholders can result in what economists call excessive

, where one group of stakeholders captures for itself a very large portion of the value created by the business. This is more likely to occur where shareholders or business managers are only considering short-term, profit-making objectives rather than the long-term health of the business.

Businesses are increasingly seeing their objectives broaden from growth and profit to a wider set of objectives related to corporate responsibility (CSR). Businesses are realising the importance for all stakeholder groups tied to a business to thrive. CSR requires a business to examine its impacts on the two domains of society and the natural environment. It also requires the business to consider impacts on both local and global scales. Businesses can be designed, or re-designed, to be more and distributive.

value

growth

value extraction

shareholders

normative

generative

social

Check

Question: 1 of 2 questions

1. Introduction to business management / 1.3 Business objectives

Checklist

Section

Student... (0/0)

 Feedback

 Print (/study/app/business-hl/sid-351-cid-762729/book/checklist-id-36524/print/)

Assign

 Student view

What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
 - vision
 - mission
 - objective

Home
Overview
(/study/app/business-hl/sid-351-cid-762729/c)
hl/sid-
351-
cid-
762729/c

- growth
- profit
- strategy
- tactic
- corporate social responsibility (CSR)

- distinguish between a vision statement and a mission statement (AO2)
- explain and evaluate various business objectives, including CSR (AO2, AO3)
- discuss how strategies and tactics help businesses achieve objectives (AO3)
- apply and recommend circular business models in context (AO2, AO3)

1. Introduction to business management / 1.3 Business objectives

Reflection

Section

Student... (0/0)

Feedback

Print (/study/app/business-hl/sid-351-cid-762729/book/reflection-id-48308/print/)

Assign

ⓘ Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

| Prompt # | Syllabus alignment |
|----------|---|
| 1 | Learner profile: Open-minded |
| 2 | Learner profile: Thinkers |
| 3 | Concept: Sustainability |
| 4 | Tool: Circular business models; Concept: Sustainability |

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.

X
Student view

ⓘ Reflection



In this subtopic you were introduced to various business objectives.

Take a moment to reflect on your learning so far. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.

1. At the start of the subtopic, which business objective did you view as most important or prevalent? Has your thinking been changed or confirmed?
2. Can the impact of a mission statement really be measured?
3. In [Section 1.3.2 \(/study/app/business-hl/sid-351-cid-762729/book/business-objectives-and-value-id-36517/\)](#) you learned about value received and value created. In which way are these concepts connected to the concepts of economic and environmental sustainability?
4. Choose one business that you come in contact with often. Reflect on which type of circular business model (resource recovery, product life extension, sharing, product service system, see [Section 1.3.6 \(/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/\)](#)) could be used to make this business more sustainable.

⚠ Once you submit your response, you won't be able to edit it.

0/2000

Rate subtopic 1.3 Business objectives

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