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Broadening the business model construct: Exploring how family-owned SMEs co-create value with external stakeholders

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ABSTRACT

This paper explores how family-owned SMEs and their external stakeholders co-create value for end consumers. Our empirical data consists of 22 semi-structured interviews with the senior management of family-owned SMEs, supplemented by 1107 items of archival data. The findings shed light on precisely *how* contemporary family business practitioners can expand their business model (through external orientation and stakeholder collaborations). In doing so, we enrich SME literature by offering new empirical research findings from the unique perspective of how family-owned SMEs collaborate with specific stakeholder groups. We also expand the current business model literature by providing a more nuanced understanding of the SME business model construct, and advance service-dominant logic theory through the presentation of our theoretical model and propositions. Ultimately, this paper extends insights into value co-creation with stakeholders as an extension of the business model construct, whilst highlighting practical implications for family-owned SME practitioners.

1. Introduction

It is generally understood that the design of the organizational business model is significant for performance outcomes in small to medium-sized enterprises (SMEs) and thus represents an important predictor for their success (Aziz & Mahmood, 2011). Family-owned SMEs are a particularly interesting case in point, as the sustainability of their business model is affected by idiosyncratic contributing factors such as the founder's entrepreneurial attributes (Carney, 2005) and the disruptiveness of the transition between generations of the family (Aldrich & Cliff, 2003). In the present study, we define an SME's business model as "the design of organisational structures to enact a commercial opportunity" (George & Bock, 2011: 99). However, the exact nature of an SME business model is context-specific, with Ferneley and Bell (2006: 233) arguing that there is a proclivity for SMEs to opt for a business model that embodies strategic improvisation in order for them to "adapt and change to suit market conditions with no long-term direction or strategic plan." This has led other scholars to conclude that it is unlikely that SME managers will have the time- or skills-based resources (or perhaps even the desire) to adopt business models centred around business strategy and planning, despite the paradoxical reality that the application of such models is actually more straightforward for SMEs than their larger counterparts (Li & Tan, 2004).

It has more recently been evinced that, in fact, SMEs occasionally

adopt a combination of different business models as part of a strategy to improve firm performance (Chang, Walters, & Wills, 2013). As organizational business models are not static but fluid in nature, often involving rapid changes to meet the demands of the digital age, SMEs in particular are faced with the question of to what extent they should engage in business model transformation in order to adapt to modern business landscapes (Chan & Chung, 2002). Yet when SMEs fail to reconfigure their underlying business model to take advantage of potential new information systems, this can reinforce cautionary approaches towards the adoption of Internet and digital technologies (Ferneley & Bell, 2006). Consequently, the focus of the SME business model often lies in its receptiveness to seizing opportunities associated with fundamental changes in technology or the market (Lee, Shin, & Park, 2012).

Evidently, studying the business model of SMEs is not only highly important for ascertaining their internal performance outcomes, but also their external contributions to their national economy (Aziz & Mahmood, 2011). Despite the perspicuous academic and practical significance of gaining a better understanding of SME business models, the academic literature has largely overlooked this domain – especially in the context of SME business model innovation (Cucculelli & Bettinelli, 2015) and SME business model strategies (Lindgren, 2012). This has resulted in a lack of research conducted into the relationship between the dimensions of an SME business model and performance implications (Aziz & Mahmood, 2011). This gap in research knowledge is especially evident in the context

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of family-owned SMEs, in which contemporary studies are now calling for more academic research to investigate specific unexplored areas of the SME business model construct – such as the relationship between the value dimension and the insourcing of knowledge and operations from external stakeholder groups (Clinton, McAdam, & Gamble, 2018).

Thus, the purpose of this paper is to close these research gaps and extend the business model concept by espousing an external perspective and exploring how family-owned SMEs and their external stakeholders co-create value for end consumers. Given the undoubted contributions that SMEs make to value creation (Arbussa, Bikfalvi, & Marquès, 2017), combined with how family firms often make changes to their institutional values (Parada, Nordqvist, & Gimeno, 2010), gaining a better understanding of how family-owned SMEs and their external stakeholders co-create value for end consumers will have strong pragmatic implications for these firms in terms of business model development and their associated performance outcomes (Andersson, Armbrecht, & Lundberg, 2017). To advance this debate, we integrate service-dominant logic (henceforth SDL) (Vargo & Lusch, 2004) into a coherent framework to show how family-owned SMEs and their external stakeholders complement each other in collaboratively creating value for end consumers. As value co-creation theories have not hitherto been considered in the context of both family-owned SMEs and external stakeholders, our paper also serves as an opportunity for much-needed theoretical development in this research domain.

This paper will make four main contributions to theory and practice. First, it will enrich the current body of SME research by offering new empirical findings from the unique perspective of how family-owned SMEs collaborate with specific stakeholder groups and how this affects them in terms of business model development and value creation for consumers. Second, the paper will expand the current business model literature by providing a more nuanced understanding of the SME business model construct. Specifically, we address literature gaps in relation to business model innovations and strategies of SMEs, thus advancing new insights into: how SME business models that are internally focused on value creation can facilitate service innovations through personal qualities that differentiate them from competitors; and how these innovations can lead to co-opetition strategies with competitors, which co-create value for end consumers. In doing so, we offer a valuable dual perspective of the value dimension of the organizational business model, in a family-owned SME context. Third, we will build upon and advance SDL theory by applying it in the unique context of how family-owned SMEs and their external stakeholders co-create value for end consumers. Finally, by extending our understanding of value co-creation with stakeholders as an extension of the business model construct, we not only contribute to the understanding of its impact for entrepreneurship and management research, but we also highlight the practical implications of our findings for family-owned SME practitioners.

The paper is disposed in the following way. First, we conduct a literature review of business models from a value perspective and value creation for family-owned SMEs, whilst presenting theoretical development and our associated research questions. Next, we describe the research methodology used in terms of our methodological positioning, data collection methods and analysis procedures. We then present our empirical findings and discuss how family-owned SMEs and their external stakeholders co-create value for consumers, addressing our three research questions whilst presenting theoretical models and propositions. Finally, we conclude by explaining our four key contributions to theory and practice, whilst identifying future research opportunities for other SME scholars to explore.

2. Literature review

2.1. SME business models in an external value context

The contemporary SME literature offers some nuanced insights into the significance of the externally-oriented value dimension when

adapting to new orientations of the business model construct. For instance, scholars have observed how, when driven by the benefits of globalization, SMEs can become disinclined to maintain a traditional innovation-averse business model in favour of developing one that is more innovative and contemporary (Lee et al., 2012). In order to achieve this, Merrilees (2007) recommends that the business model of the SME give attention to corporate culture, identity and value creation from the outset. This suggests that SMEs should consider business model adaptation as a complementary element of investment in the intangible attributes associated with higher values and their associated performance enhancements (Cucculelli & Bettinelli, 2015). When striving to attain this objective, George and Bock (2011) suggest that the interrelation of internal resources with external stakeholders epitomizes the key to SMEs creating opportunity-centric value. However, the adaptation of SME business models to reflect a more open, externally-focused approach to value creation is not without risk; Lindgren (2012) expounds the complexity of these external relationships by explaining that, during business model innovation processes of SMEs, network partners' demands for value can be notably distinct from those of the consumers as they can involve experimentation, or be geared towards the fulfilment of the values demanded by the stakeholders' own customers. Overall, it is evident from the existing literature that the exact nature of how certain types of SMEs create value within their business model for consumers is not comprehensively understood; thus, further academic investigation is warranted.

2.2. Family-owned SME business models and value creation

Previous literature suggests that, in order to germinate an appropriate business model, managers within family-owned SMEs should integrate advantage-seeking and opportunistic behaviors (Sirmon & Hitt, 2003). In a recent empirical study of a family-owned SME, Arbussa et al. (2017: 283) found that the company's business model was that of "partial customization", which demonstrates how some family-owned SMEs are now taking a more external approach to their business model development by means of co-creational activities that create value for all involved stakeholders (i.e., themselves, their clients and, in this case, the end consumers). Furthermore, a recent study by Clinton et al. (2018) assessed the fundamentals of business model construction within the context of transgenerational family-owned SMEs, in which they explored the relationships between business model dimensions – both internal (resources, finance and infrastructure) and external (stakeholders and value). Their findings establish the value dimension as fundamental to the business model construct of these firms, and also reveal that interactions between internal and external stakeholders do not invariably have positive effects on performance outcomes for these organizations. This raises the question of whether family-owned SMEs fine-tuning their standard business model to become more adaptive and externally oriented would enhance their sustainability and renew their competitiveness, as suggested by Arbussa et al. (2017).

In the context of family-owned SMEs, maintaining the ability to create value for consumers is a primary concern for this type of firm (Clinton et al., 2018). There is a common belief that there exists potential value creation residing in their capacity to develop and leverage intangible assets such as social capital, trust, reputation and/or tacit knowledge (Sirmon & Hitt, 2003). It is therefore not surprising that family business research has increasingly focused on factors of competitive advantage and value-creating potential in these types of firms (e.g., Carney, 2005; Chirico, Ireland, & Sirmon, 2011). In a recent study on family-owned SME business model construction, Clinton et al. (2018) found that the group structure aspect of the business model may be strategically important in terms of value creation. This raises legitimate questions as to the nature of how family-owned SMEs co-create with external stakeholders for consumer value creation purposes.

2.3. Theoretical discussion

To better understand the co-creation of value with external stakeholders of family-owned SMEs, we adopt SDL as our theoretical lens. SDL posits that service is the fundamental basis of business and that service is exchanged for service (Lusch, Vargo, & O'Brien, 2007). According to scholars, the orientation of this logic can essentially be applied to any two service systems, including the end consumer but also other external stakeholders of the primary business (Mijnheer & Gamble, 2019; Vargo & Lusch, 2008). This has resulted in numerous scholarly debates as to the nature of value co-creation (Gamble & Gilmore, 2013), which has led Nenonen and Storbacka (2010) to conclude that, in theoretical alignment with SDL, the locus of value co-creation resides between various actors within the networked market. This theoretical positioning strongly correlates with the organizational context of family-owned SMEs, as recent research findings indicate that their interactions with external stakeholders through communication networks are contingent on knowledge resources (Clinton et al., 2018). Furthermore, the philosophical grounding of this logic challenges management to be of service to its stakeholders and ultimately co-create value for consumers by way of reciprocal service provision (Lusch et al., 2007). This managerial challenge is especially salient for family-owned SMEs, which have been known to implement unilateral votes to supersede external stakeholders as part of family control hegemonies (Morck & Yeung, 2003). Vargo and Akaka (2009: 39) suggest that “the goal of service systems is to provide input into the value-creating processes of other service systems and thus to obtain reciprocal inputs”. Therefore, based on SDL, the basis of business is value-creation by external stakeholders enabling the service supplier to gain value in return (Gupta & Lehmann, 2003), where the process service is a mediating factor (Grönroos & Ravald, 2011).

According to the seminal work of Freeman (1984: 46), a stakeholder is defined as “a group or individual who can affect or is affected by the achievement of the organization’s objectives”. SDL conceptualizes value-creation networks and stakeholders as resource integrators (Williams & Aitken, 2011), which has direct implications for family-owned SMEs on account of how their fostering of resources through stakeholder engagement can generate innovation outcomes (Pantano, Priporas, Viassone, & Migliano, 2019). Given that value emerges from a process of co-creation, firms need to work with their stakeholders to promote sustainable relationships for a ‘win-win’ scenario (Williams & Aitken, 2011). In advancement of the theoretical work of Nenonen and Storbacka (2010), which applied SDL to conceptualize networked value co-creation in the context of the business model design, the current study will seek to advance further understanding through an empirical investigation into family-owned SMEs. Specifically, we will investigate the following research questions:

RQ1: How is value created within family-owned SME business models?

RQ2: What role do external stakeholders play in the business model construct of family-owned SMEs?

RQ3: How do family-owned SMEs and their stakeholders co-create value for end consumers?

3. Methodology

Based on the exploratory nature of our research questions, which investigate how family-owned SMEs and their external stakeholders co-create value for end consumers, we subscribed to an epistemological position that was inherently interpretive and allowed us to address the complexity and context-specific meaning of our empirical domain (Black, 2006). In adherence with this positioning, we adopted a methodology that was qualitative in nature (Eisenhardt, 1989) and pursued an induction-driven research design that was suitable for generating theory about novel phenomena (Locke, 2007). In line with the methodological positioning of the study, we utilized a case study

Table 1
Summary information of case firms.

	Case 1	Case 2	Case 3	Case 4
Industry	Paint	Logistics	Agri-food	Funeral home
Year founded	1953	1975	1993	1819
Generation	2G – 3G	2G	3G- 4G	7G
Family ownership	100%	100%	100%	100%
No. of employees	70	75	250	90
Turnover	€18M	€40M	€60M	€20M

approach (Yin, 1989). Specifically, comparative and interview-based multiple case studies were employed as they facilitate the identification of contingency factors that distinguish the cases (Yin, 2003), whilst contextualizing the key variables associated with the complex issues that they explore (Gummesson, 2006). This method is often more accurate vis-a-vis generalizable interpretations than single case studies (Eisenhardt & Graebner, 2007).

3.1. Case selection

As our research questions facilitated theoretical heterogeneity, we adopted purposive sampling to select our chosen multiple cases for the study (Pratt, 2009). Our unit of analysis was family-owned SMEs at the organizational level, in accordance with our research questions and similar research into family business case studies (see Clinton et al., 2018; De Massis & Kotlar, 2014). In order to establish heterogeneity in our sample, we selected four family-owned SME cases that were differentiated from each other in terms of industry, employee numbers, turnover, generation and age. In doing so, this sampling approach served to contextualize the research from distinct organizational perspectives, thus adhering to the ‘transferability’ criterion of Guba’s (1981) construct for qualitative research trustworthiness. Our use of four cases for this multiple case study design falls within the parameters recommended by Eisenhardt (1989), who advocated the inclusion of four to ten in order to efficiently establish complex theories whilst attenuating against superfluity of data.

The following sampling criteria were adopted to select appropriate family-owned SME firms for inclusion in the study: (1) Fifty percent or more of ordinary voting shares are owned by members of the family (Upton, Teal, & Felan, 2001); (2) Fifty percent or more of the management team are drawn from the largest family group that owns the company (Sindhuja, 2009); (3) The company is perceived by the CEO to be a family business (Westhead, Cowling, & Howorth, 2001); (4) There are at least two generations involved in the business (Sindhuja, 2009); and (5) The firm consists of 250 employees or less, thus was classified as an SME under EU regulations (Gilmore, McAuley, Gallagher, Massiera, & Gamble, 2013). This theoretical sampling allowed us to study the phenomenon of interest under particularly insightful circumstances (Siggelkow, 2007), which could shed light on the co-creation of value with external stakeholders. Our intention was not to statistically generalize results from the exploratory case study analysis (Yin, 2003), but instead to provide analytical and theoretical generalizations (Lincoln & Guba, 1985). In doing so, we contribute to the existing body of knowledge on family-owned SMEs and co-creation of consumer value by ensuring external validity of the data (Seale, 1999). Table 1 below provides: a description of family members in each company, industry or sector in which each company participates; the latest generation currently employed; and the approximate size of the company (i.e., number of employees).

3.2. Data collection

The primary data collection method involved a set of in-depth face-to-face interviews with a range of senior executives from each case firm (including CEOs, directors, senior managers and other key family/non-

family personnel who are exposed to interactions with external stakeholders). This facilitated a diverse range of views from qualified and relevant interview candidates within each case, which ensured that an accurate depiction of value creation and stakeholders was presented, thus fulfilling the ‘credibility’ criterion of Guba’s (1981) construct for qualitative research trustworthiness. All interviews were conducted at the firm headquarters. The interviews were semi-structured and included questions such as: “How would you describe the business model of your firm?”; “What role do external partners play in your business model?”; “In what ways does your firm create value for your end consumers?”; and “Have you collaborated with any external partners for value creation purposes?”. This common set of questions allowed us to observe variations in participant responses across different members of each family-owned SME. A total of 22 interviews were conducted by two researchers and emerging insights were discussed after each firm visit. The interviews were conducted between July and November 2018. Prior to each interview, the researchers reviewed websites and public press reports to obtain an understanding of the firm and respective industry. The interviews lasted an average of 49 minutes and were tape-recorded and transcribed verbatim. Overall, we analyzed over 18 hours of interviews captured by 244 pages of single-spaced transcripts. Table 2 provides information on the interviewees, their assigned aliases to protect their anonymity and the duration of each interview. Due to all interviewees having been offered anonymity, in the subsequent findings/discussion section their names have been replaced with codes consisting of their case firm number and an abbreviation of their role (for example, the Managing Director of Case 1 would be represented as C1-MD).

In addition to interviews, a total of 1107 archival items dating back 60 years to 1959 were collected from company documents, case studies, corporate webpages, government reports, industry reports, newspaper articles, online articles, online videos and print advertisements¹. We triangulated the interview data with these secondary archival sources, which provided richer data and strengthened the substantiation of emerging constructs and ensuring construct validity (Yin, 2003). A detailed breakdown of the archival data sources for the four case study firms is presented in Table 3. When Tables 2 and 3 are considered collectively, the richness of their descriptions of the four cases and their inherent datasets underscore the analytical generalizability of the resultant findings (Lincoln & Guba, 1985), thus attesting to their external validity (Seale, 1999).

3.3. Data analysis

The analysis of the archival and interview data was conducted by two research team members working collaboratively, with the project’s Principal Investigator managing the process and acting as referee, thus establishing inter-rater reliability of the data analysis (Armstrong, Gosling, Weinman, & Marteau, 1997). We inputted our data sources into NVivo (version 11) as it is considered the benchmark analysis software for qualitative analysis of both interview data (Bazeley & Jackson, 2013) and archival data (Di Gregorio, 2000). Resulting from this process, a case database of our four cases was created (De Massis & Kotlar, 2014). This formed the foundation for our structured process for data analysis (Miles & Huberman, 1994) including within-case analyses, second-order coding and cross-case analysis (Schweizer, 2015).

Aligning with our inductive approach (Thomas, 2006), our analysis followed an iterative four-phase process of constant comparison analysis (Leech & Onwuegbuzie, 2011), consistent with the approach of Clinton et al. (2018). First, we conducted category analysis, in which we refined our raw interview and archival data into thematic categories

(Edhlund, 2011), providing aspects to distinguish, construe and/or contrast (Saldaña, 2015). This process resulted in the identification of three categories of internal value co-creation within a family-owned SME business model, as depicted in our data structure model in Fig. 1 below. Second, we conducted thematic analysis by investigating the category data extracted in the first phase, theorizing for any surfacing themes, then determining any linkages between the data and our findings (Edhlund, 2011). This process resulted in the identification of fourteen themes within our three categories, as visualized in our data structure model in Fig. 1 below.

Third, we conducted sub-thematic analysis by iteratively reading through our thematic data from Phase 2 and our category data from Phase 1, to confirm the accuracy of the codes (Polit & Beck, 2004), then arranging and classifying our sub-themes. Returning to another cycle of inductive analysis, we re-examined our data to gain a better understanding of our themes and subthemes (Chuang, Hsu, Wang, & Judge, 2015). Although we observed some variation in our cases, we focused on commonalities among them to develop our theoretical model (Walsh & Bartunek, 2011). An example of variation could be found for instance in the theme “suppliers”. While this theme was found in all of the cases, Case 1 exhibited clear examples of sub-themes “partnerships”, “relationship development” and “knowledge acquisition” but not “fair pricing”. Case 2 showed clear evidence of “fair pricing”, whereas Cases 3 and 4 displayed “relationship development” and “fair pricing”. This scrutiny resulted in the identification of thirty-three sub-themes within our three categories and fourteen themes, as shown in Fig. 1. Fourth, we conducted reliability analysis to cross-reference the data against participant demographic variables (Elo & Kyngäs, 2008). Additional quality control checks were implemented by iteratively re-examining the coded dataset from the preceding phases (DeCuir-Gunby, Marshall, & McCulloch, 2011). Through the execution of this four-phase analysis procedure, we have taken steps towards fulfilling the ‘dependability’ criterion of Guba’s (1981) construct for qualitative research trustworthiness.

4. Findings and discussion

4.1. How value is created within family-owned SME business models

A central theme that emerged from our multiple interview data on how family business SMEs’ co-create value was how these firms differentiate from competitors within their industry, which was also verified by archival data on Case 2 that “there’s great satisfaction in doing something different [sic] to the competition” (KPMG family magazine, 2019: 10). This is theoretically significant, given that Zachary, McKenny, Short, and Payne (2011: 4) previously suggested that the culture of family-owned SMEs “emphasizes comparatively less competitor orientation.” Our independent findings from the Case 2 and 4 interviews show the importance of *personal qualities*, for instance: “It’s the people that make up the business [...] and I think that’s where the strength lies.” (C4-MD). Another member of the team continued, “people want compassion and warmth from a familiar face and that is what we as a family business can offer” (C4-C).

Within this theme, we find that the *personal qualities* of the offering influence the firm’s differentiated *service innovations*, as independently expressed in the Case 1 and 2 interviews, as well as archival data that Case 1 is “staffed by chemists who help drive the innovation” (Sunday Business Post, 22 May 2016). These findings support and advance the argument by Lionzo and Rossignoli (2013: 588) that, within family-owned SMEs, “family members could promote a set of values and goals open to innovations.” For Case 2 in our study, a firm operating in the logistic industry, “The relationship is one thing. The other real driving factor behind it is service.” (C2-GM). Such comments are supported by the Financial Director who acknowledged that “we make [service innovations] part of our protocol and procedures [...]. It makes us hugely different.” (C2-FD) Despite the proliferation of family business research

¹ The relatively low amount of archival data collected for Case 2 is due to it having a simple corporate website of only 23 corporate webpages, whereas the other cases all had websites featuring hundreds of corporate webpages.

Table 2
Breakdown of interview data.

Company	Job title (Interviewee code)	Family member	Length (min)	Transcript # pages
Case 1	Operations Director (C1-OD)	No	48	9
	Finance Director (C1-FD)	No	58	11
	Head of Sales (C1-HS)	Yes	36	10
	Secretary (C1-S)	Yes	47	10
	Chairman (C1-C)	No	49	9
	Sales & Marketing Director (C1-SMD)	No	67	15
Case 2	Director 1 (C2-D1)	Yes	50	12
	Financial Controller (C2-FC)	No	31	7
	Director 2 (C2-D2)	No	49	10
	General Manager (C2-GM)	No	61	14
	CEO (C2-CEO)	No	57	13
	Financial Director (C2-FD)	No	42	10
Case 3	Secretary (C3-S)	No	45	10
	Financial Director (C3-FD)	No	43	9
	HR Manager (C3-HRM)	No	37	8
	Procurement Manager (C3-PM)	No	49	13
	Operations Manager (C3-OM)	No	86	14
Case 4	Chairman (C4-C)	Yes	62	13
	Managing Director (C4-MD)	Yes	45	14
	MD of subsidiary (C4-MDS)	No	41	10
	Head of Operations (C4-HO)	No	30	9
	Previous MD (C4-PMD)	Yes	53	14
Total			1086	244

Table 3
Breakdown of archival data.

Year	Case 1	Case 2	Case 3	Case 4
1951–1960				PA(1)
1961–1970	NA(1)			PA(2)
1971–1980	NA(1)	NA(5)		NA(1)
1981–1990	NA(1)	CD(3)	NA(2)	NA(2)
1991–2000	NA(1)		NA(6)	NA(7)
2001–2010	NA(6)	CD(1), CW(2)	NA(27)	NA(12), OA(1)
2011–2019	CW(396), NA(31), OA(1), IR(1), OV(3)	CS(2), CW (23), GR(1), NA(2), OA(2)	CS(1), CW (131), NA(31), OA(1), OV(7)	CW(361), NA(22), OA(7), OV(2)
	Total	442	41	206

CD = company documents, CS = case studies, CW = corporate webpages, GR = government reports, IR = industry reports, NA = newspaper articles, OA = online articles, OV = online videos PA = print advertisements.

that has focused on competitive advantage and value creation (see Carney, 2005; Chirico et al., 2011), this exposed relationship between personal qualities and service innovations, in terms of facilitating a differentiated approach to value creation for family-owned SMEs, offers a new addition to the existing body of research in this area. Furthermore, our archival data for Case 1 reveal how differentiating through service innovations positions family-owned SMEs for collaborative endeavours with stakeholders: “[C1-CEO] innovated by introducing in-store tinting machines that enabled distributors and retailers to use a white base” (Sunday Independent, p. 11, 15 May 2016).

As evidenced in our interviews and archival sources of family-owned SMEs, family factors had a unique influence on value creation. When searching for patterns in our data, we identified specific factors including the *assimilation of family values* (independently expressed by Cases 1–3), and an *emotional connection* to loyal long-standing consumers (expressed by Cases 3 and 4). Our interviews with multiple generations of Case 2 regarding *assimilation of family values* reveal that, for the current generation, “consumers trust our brand and the family association with the business” (C2-OM). In Case 1, family values instilled by the current leader have penetrated the corporate culture: “the personality of the person at the top completely influences everybody else down the line” (C1-FD). Previous research into family-owned SMEs suggests

that the values shared by family members only reflect their own level of emotional involvement within the firm (Lionzo & Rossignoli, 2013). Building on this, our own findings demonstrate how these assimilated family values have also influenced an *emotional connection with consumers* based on transparency and traceability of product: “They do trust family businesses much more than they trust large corporates because there’s this belief that the whole essence of family is about trust” (C3-FD). In Case 4, for over 200 years the family was trusted by the people of the city to care for their funeral needs. Since its founding in 1819, the firm has maintained a family-run tradition, where bereaved families receive a compassionate, dignified and caring service for their loved ones: “it is about the personal touch, we are dealing with families who trust our family to take care of theirs” (C4-C).

Contemporary research studies into family-owned SMEs find that the production of high-quality products or services creates value for the firm in terms of reputation and export sales (Hennart, Majocchi, & Forlani, 2017). Within this theme of quality of core product or service, our selected cases contribute to this discussion from a consumer value perspective by showing evidence of the importance of the *emotional experience for consumers* in the creation of value, and how this is often influenced by the individualistic *personal qualities* (an associated sub-theme) exhibited by family-owned SMEs: “We’re premium and quality. But quality is a given. I think over the last few years we’ve realized that it’s more to do with colour and actually the experience” (C1-OD). This point is supported by recent archival data that Case 3 ensures that their consumers “receive the same consistent quality across own label potatoes” (Agriculture Monitor Worldwide, January 2018).

We distinguished the theme of reliability to include the family firm’s *crisis management* ability and *delivering on promises* to consumers as key facets for value creation, as corroborated by multiple cases. For Case 2, our archival records (newspapers and industry reports 1985, 2011, 2016) show that the logistic and transport industry is fraught with unpredictable crises. The Financial Controller commented that “sometimes something will go wrong, but I think what we try and do is let them know straight away [...] and try and do our best to get it right” (C2-FC). A similar situation prevailed in Case 3, during a harsh winter in 2018 whereby many agri-food businesses closed (newspaper record, March 2018), the business and its employees rallied to assist with *crisis management*, which ensured that the family-owned SME *delivered on its*

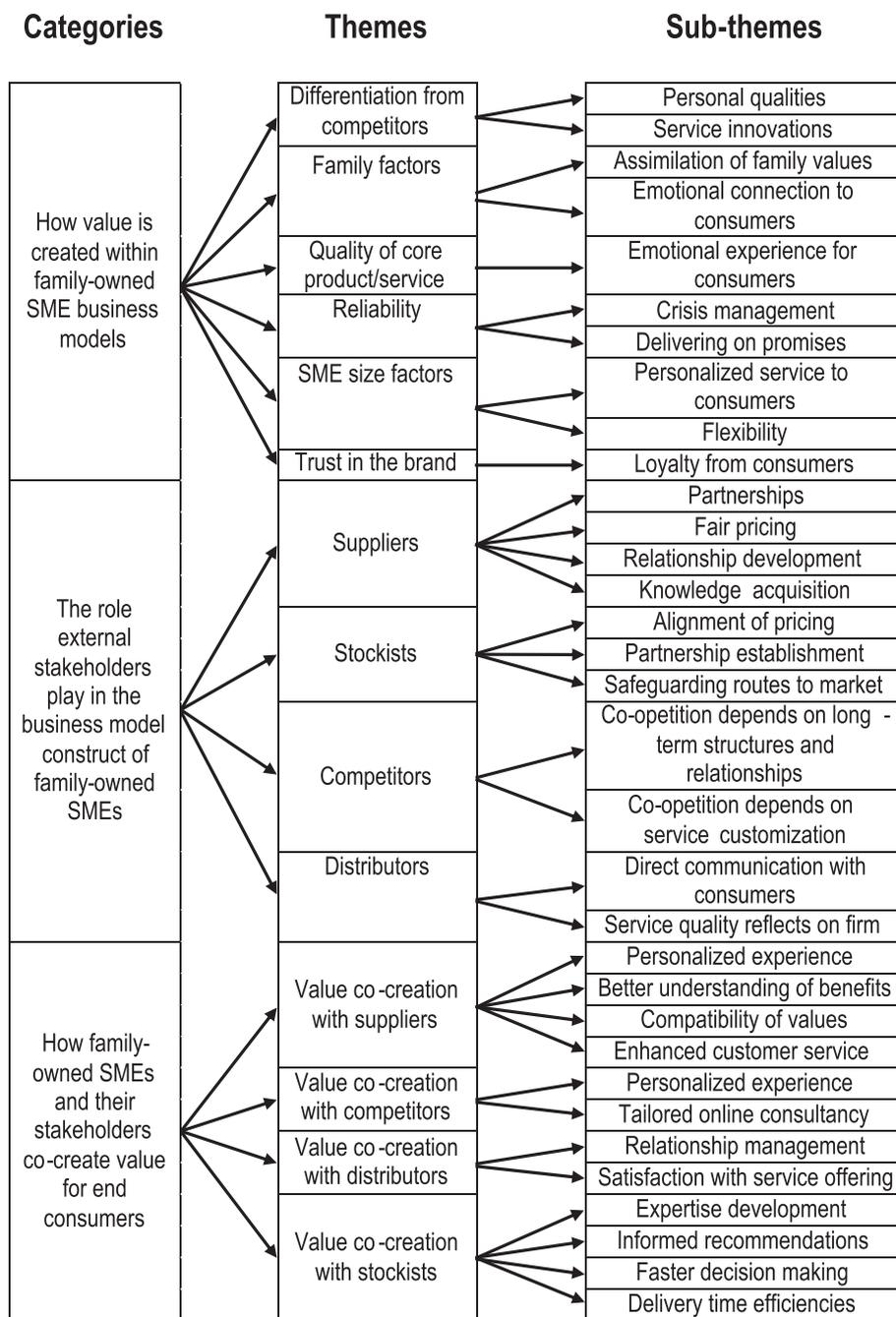


Fig. 1. Data coding structure.

promises to key consumers: “It is the passion about the business and about our service to the customer and the quality of the product” (C3-PM). In Case 4, funerals are times of emotion and heartache for families and friends of the deceased. For the siblings leading the business, as the family name and heritage is synonymous with the company, they understand that “if you’ve had bad service to do with a funeral, then you won’t forget it. Likewise, if you’d had good service, you’ll remember it” (C4-MD). These statements clearly illustrate how reliability through delivering on promises influences how trust-based value is created for consumers, which builds upon the viewpoint expressed by Calabrò and Mussolino (2013: 377) that, for family-owned SMEs, “competence-based trust refers to trust ‘from the head’”.

Within our theme of SME size factors, we identified the sub-themes of flexibility and personalized service to the consumer as fundamental to value creation, and also influential to how family-owned SMEs

differentiate themselves from competitors (an associated theme). As independently raised by two senior members of Case 2, being an SME with a strong family orientation has allowed the firm to retain the personalized service and emotional touch required by the customer: “We can offer an awful lot more consultation when a customer calls us, they’re usually calling the same person” (C2-FD). In the literature, Segaro (2012: 161) finds that, for family-owned SMEs, “personalism propensities [...] which may result in competitive advantage might be more dependent on size”. We also observe a correlation between the family-owned SME’s personalized service to consumers and how they differentiate from competitors in their respective market. For instance, Case 1 independently expressed that the personalized service that they can offer due to their size helps them to facilitate service innovations and create a unique selling point for consumers: “we’re not just looking at product innovations, like introducing a new finish to the paint, it is more about the

service that differentiates us” (C1-HS). For Case 2, being an SME in the logistic industry and the flexibility that the size of the firm affords them is one of their unique strengths: “We are committed to our customers and small enough to retain a personal connection” (C2-CEO). Similar views were expressed by the Financial Director: “We make it work by whatever means, because we’re flexible, because we’re a family company” (C2-FD). Our interview findings here indicate that the flexibility of family-owned SMEs facilitates potential stakeholder collaborations and differentiation strategies, and ultimately correlates with consumer value creation as corroborated by archival data on Case 2: “The innovative things that we do are [...] because of our size and flexibility, and will relate to enhanced customer service” (KPMG family magazine, 2019: 10). From a theoretical standpoint, these insights extend the views of Kontinen and Ojala (2011b: 17) that “given their flexibility and personal contacts, [family-owned SMEs] have possibilities to network with customers and other actors”.

The theme of *trust in the brand* was revealed to be an instrumental and highly interconnected element in the internal value co-creation of a family-owned SME’s business model, which provides empirical support for the views of Sirmon and Hitt (2003) that there is potential value creation in how family-owned SMEs leverage trust and reputation. Our data advance new understandings in this regard by exposing how this trust in the brand influences the firm’s differentiation from competitors whilst being influenced by aspects of how the firm delivers on promises. For the non-family Chairman of Case 1: “It’s all about brands - that’s how you can add value” (C1-C). Such sentiments align with another senior member of the firm: “We have turned it into a sales and marketing organization and now we are [...] adding another step and making it into a brand company” (C1SMD). From our interview and archival data, Cases 1 and 2 independently identified the sub-theme of *loyalty from consumers* as central to the creation of value. Specifically, we find that it is influenced by the quality of the product/service (as associated theme), as “you buy something that you like and a brand that you know you can trust” (C1-F). In Case 2, it was expressed that the loyalty from trusting consumers is also influenced by the emotional connections that consumers have with the family values: “The culture here is [...] focused on the customer. Integrity and honesty are a very fundamental part of the business” (C2-OD). These findings are theoretically significant as they advocate and expand upon the hypothesis of Pérez-Cabañero, González-Cruz, and Cruz-Ros (2012: 123) that family-owned SMEs “try to gain customer loyalty through product differentiation”.

4.2. The role external stakeholders play in the business model construct of family-owned SMEs

Our findings reveal that suppliers play a key role in the value-centric business model construct of family-owned SMEs, and that this role is grounded in the complexities of relationship development, partnerships, knowledge acquisition and fair pricing. Previous literature suggests that family-owned SMEs develop long-term partnerships with suppliers due to their proximity and frequent dialogue (Campopiano & De Massis, 2015). Our findings from Case 4 instead reveal how strong partnerships between these stakeholders exist on account of the sensitive nature of their line of business: “External partners would be the other people with whom we coexist” (C4-C). The partnerships forged with suppliers were also independently discussed by Case 3, revealing how they are often mutually correlated with fair pricing: “if you treat suppliers well and you treat them fairly and you work with them as I say a partner, in times of want and need you’ll always have somebody” (C3-HRM). Even when formal partnerships are not established, Cases 1, 3 and 4 independently expressed that a vital component to how the supplier role impacts the business model of the family-owned SME is through relationship development: “Nine years out of ten supply always outstrips demand, so [suppliers] would be always very loyal to [Case 3] to try and get us in here” (C3-PM). This is further advocated by Case 2 contemporary archival data that “our assets, really, are our people and the relationships we have

with our customers and suppliers” (KPMG family magazine, 2019: 10). Managing relationships with suppliers can also lead to knowledge acquisition: “Develop relationships with your suppliers, because you can learn an awful lot with them” (C1-OD). These findings support previously-held views by Basco (2014: 974) that, for family-owned SMEs, “the external community relationship, based on long-term relationships with suppliers [...], becomes critical for getting information”.

Stockists, which can be defined as the wholesale or retail establishments that stock the product, emerged from the interview and archival data as a significant stakeholder for family-owned SMEs, with their role involving key aspects relating to the alignment of pricing, partnership establishment and safeguarding routes to market. The Stockists’ role can manifest through alignment of pricing, in which Case 1 expressed that “you’re tied in with your stockist because you’re contracted with them to supply them, you fix your prices with them every year” (C1-C). Although previous studies on family-owned SMEs acknowledge the potential significance for establishing long-term partnerships between the two enterprises (Kontinen & Ojala, 2011a), our insights add new dimensions to the existing literature. The findings from Cases 1 and 3 also provide insights into how price alignment can facilitate the relationship with stockists being perceived as an established partnership rather than supplier/buyer relationship: “We’ve been supplying Tesco here since 1998 and I mean they would be ranked one of our top suppliers. But they would see us as a partner” (C3-HRM). According to a non-family member of the top management team: “It is about reputation, respect and trust [...]. It is not about the clinical face of the corporate world” (C3-PM). These respect and trust aspects of the stockist partnership are corroborated by archival data regarding Case 1, which uses “140 independent stockists and does not allow its products to be sold in mass market DIY chains” (Irish Times, 5 April 2016). The stockist role in family-owned SME business models was also revealed to include safeguarding routes to market, based on the interview suggestion by Case 1 that their main stockist stakeholder is “trying to put together a ten-year strategy about how to maintain their business and protect their routes to market” (C1-HS).

The SME literature suggests that these types of firms can be vulnerable to competitors imitating (and thus appropriating) the way in which they create value from their business model (Lindgren, 2012). Our findings demonstrate that, in a family firm context, the competitors of SMEs can actually denote another important stakeholder, as they may play a pivotal role in the value-centric business model based on two dependency factors. The first factor, which was independently expressed by both directors of Case 2, was long-term structures and relationships: “some of the lines that we support on other trades would have no problem in working with us. And again, that’s all down to the structure that we’ve built over the years, the relationships” (C2-D1). Another expressed dependency factor correlated to service customization: “By adding value onto their service [...] they’re giving their customer a customised service” (C2-D2). These two key insights are theoretically significant as they essentially challenge the viewpoint of Kotlar, De Massis, Fang, and Frattini (2014: 614) that family-owned SMEs are “little concerned with the competitors’ moves, and are thus more inward oriented”. As our findings offer new evidence of how the competitor role is actually grounded in these two dependency factors for co-opetition strategies, this accentuates the mutual awareness as a foundation for value co-creation.

Through our data analysis, distributors emerged as another interconnected stakeholder, in which their inherent role is derived from direct communication with consumers and how their service quality reflects on the family-owned SME. For Case 1, distributors are instrumental as “they’re the ones talking to our customer” (C1-HS). As a result of this direct communication with consumers, our findings also show how the distributors’ service quality reflects on the firm: “if a haulier is supposed to go in and collect a shipment and he doesn’t turn up well then it just reflects badly on us” (C2-FC). These findings vis-à-vis the extent of distributor communication within the value network of family-owned SMEs

extends the coverage of previous SME research, which tends to focus on communication between the distributors and the SME as a result of financial resource limitations (Chulikavit, 2011).

4.3. How family-owned SMEs and their stakeholders co-create value for end consumers

In seeking to answer the question of *how* value is co-created between family-owned SMEs and their stakeholders, we identify the drivers of value co-creation and the value that is co-created across our four stakeholder groups (suppliers, competitors, distributors and stockists) for the benefit of the end consumers.

In our data analysis from multiple interview sources, we identified value co-creation between our selected family-owned SMEs and their suppliers driven by mutual *personalized experience*, which challenges the statement by Llach and Nordqvist (2010: 394) that family-owned SMEs “focus on and have a closer contact with customers than suppliers”. Indeed, our firms possess strong and long-lasting relationships with suppliers, spanning between two and eight decennaries. Our findings previously revealed that, when family-owned SMEs maintain an internally-focused BM, the quality of their product/service and their unique personal qualities can create value for consumers through emotional experiences. Additionally, previous research into the supplier role in relation to family-owned SMEs acknowledges how long-term relationships can lead to knowledge acquisition (Basco, 2014). Based on independently expressed views in the Case 2 and 3 interviews, our findings build upon these previously-held understandings by revealing how, as suppliers become more knowledgeable due to relationships developed with the family-owned SMEs, together they can co-create more *personalized experiences* for the end consumers: “Our customers are trying to connect back to those suppliers who are connected with the actual production of the food” (C3-PM). This co-created personalized experience creates value for the consumer by giving them a better *understanding of the benefits* of the product/service, as explained by Case 3 in how “as consumers, we want to know where our food comes from; we want to know that it’s good for us” (C3-FD). This reflects the approach by Case 2, in which the General Manager “would take the information from [the suppliers], I’d keep it in and use it on the far side with our client base” (C2-GM). Accordingly, we make the following proposition:

Proposition 1: *Family-owned SMEs and their suppliers can co-create value for consumers in the form of a better understanding of product/service benefits, when emotional experiences and supplier knowledge result in more personalized experiences for the consumers.*

Value co-creation is also present between our family-owned SMEs and their suppliers based on strong and lasting partnerships formed on an *assimilation of family values*. In Case 2, we see a strong sense of *compatibility of values* around customer service: “The partnerships that we have with the lines that we represent, who have similar structures as ourselves and similar values on customer service” (C2-GM). Similarly, in Case 4, our archival records (company reports, 1985; 2016) show the longevity of their relationship with suppliers who “know who we are and what we stand for and the same goes for us about them” (C4-HO). In Case 3, this third-generation family-owned SME works closely with other similar farms and the bond they possess with these farmers and the local community is strong: “They’re very much into the community, supporting community, supporting people” (C3-PM). These findings are significant in terms of the value that is co-created for the end consumers. Our findings previously demonstrated how, when an internally focused business model is maintained, family factors within family-owned SMEs benefit the consumers by bringing out family values and instilling emotional connection to the consumers. However, the corroboration of independently expressed views from Cases 2, 3 and 4 above reveal how, when family-owned SMEs establish an actual partnership with the suppliers through fair pricing, as opposed to through merely proximity

and dialogue as suggested in other studies (see Campopiano & De Massis, 2015), they form an equilibrium whereby their congenial values directly result in an *enhanced customer service* for the end consumers. These insights are theoretically significant as previous research has acknowledged that the exposure of family values within family-owned SMEs stimulates the relationship between the firm and stakeholders in terms of creating value for end consumers (see Clinton et al., 2018; Sinfeld, Calder, McConnell, & Colson, 2012), but without specifying which stakeholders or *how* exactly value is co-created. In extrapolating these specifics from our data analysis, we make the following theoretical proposition:

Proposition 2: *Family-owned SMEs and their suppliers can co-create value for consumers in the form of enhanced customer service, when the interpenetration of family values through a partnership creates a compatibility of values.*

In seeking to understand how family-owned SMEs’ work with competitors to differentiate their offering, we see the driver of *personalized experience* and the value of *tailored online consultancy* to consumers. In Case 1, industry reports show that since 2015 the paint industry has moved toward online service customization (industry reports 2015, 2017, 2018). For this fourth-generation family-owned SME, much of their knowledge acquisition toward online service customization was derived from their collaboration with an international competitor: “it’s actually a project that’s in training and we hope will be a big part of our service innovation” (C1-SMD). Similarly, in Case 2, our archival records show that in the logistic industry - “an industry that operates 24/7 and 365 days” (industry report, 2015) - the importance of service customization is increasingly coming to the fore: “online systems that can embrace the specific needs of the client around the clock are critical” (C2-FC). In Case 4, we learned how many national funeral companies worked with an independent service provider to inform the public about recent deaths and the funeral arrangements involved. What these findings show us is that family-owned SMEs do not only create value for consumers via service innovations on account of their own unique personal qualities, but also by leveraging the collaborative power of their own competitors. Seminal management discourse informs us that business institutions are obliged to consider the relative power of competitors due to their inherent influence over the firm’s strategic actions (Porter, 1980). Building on this premise, our empirical findings expound how the aforementioned service innovations of family-owned SMEs can also be implemented through service customization with their competitors as part of a co-opetition strategy. This co-creates a more *personalized experience* for the consumer and, ultimately, value through *tailored online consultancies*. Resultingly, we make the following theoretical proposition:

Proposition 3: *Family-owned SMEs and their competitors can create value for end consumers through tailored online consultancy, when they work together to customize service innovations and co-create more personalized experiences for them.*

In looking at relationships between our family-owned SMEs’ and their distributors, we observe the importance of service quality, reflecting on the reputation of the family-owned firm and the ability to deliver on promises. Building upon the long-standing management premise that distributors for SMEs should consider potential exchange activities (Dwyer, Schurr, & Oh, 1987), our findings show how co-created consumer value of *satisfaction with the product/service* is essentially driven by *relationship management* between family-owned SMEs and their distributors. An industry that is heavily dependent on the reliability of its service can be seen in Case 2 and the logistic industry: “You can only go back to a customer so many times and say ‘look it’s the hauliers, he just is crap’” (C2-FC). In Case 1, the Operations Manager comments: “We depend on distributors heavily, our name is on this product and our family connection” (C1-OM). Previous research by Barbosa and Romero (2013: 93) claims that, for SMEs in general, “The goal is to find

- (2) The inherent role that external stakeholders play in relation to the business model of family-owned SMEs (outer sections of model); and
- (3) How family-owned SME and their stakeholders co-create value for consumers (bi-directional arrows linking inner and outer sections of model).

5. Conclusions

This paper set out to empirically explore how family-owned SMEs and their stakeholders co-create value for end consumers. Using a multiple case-study approach, we investigated four heterogeneous family-owned SMEs through in-depth semi-structured interviews with senior executives and archival data analysis. In addition to presenting findings and discussion which answer our three research questions, we have presented theoretical models and propositions to advance further research into this topical area of academic inquiry. In doing so, we make the following four contributions to theory and practice.

First, we enrich the existing body of SME research by offering new empirical research findings from the unique perspective of how family-owned SMEs collaborate with specific stakeholder groups, and how this affects them in terms of business model develop and value creation for consumers. For instance, findings by [Lee, Park, Yoon, and Park \(2010\)](#) suggest that SMEs can simultaneously adhere to both networking-based and individualistic-based business models, which would result in partial fulfilment of meeting customer needs. The current study advances these findings by demonstrating how, when SMEs are family-owned and engage in relationship management with their distributors, they not only enhance their individualistic business model by delivering on promises to meet consumer needs, but also enhance their networked business model by collaboratively offering a service quality that truly satisfies those consumer needs. Our findings also make a valuable contribution to the SME research domain by providing fresh insights into how SMEs can circumvent some of the issues they face with influential stakeholders. For instance, the findings by [Lindgren \(2012\)](#) indicate that SMEs are particularly susceptible to having their value creation attributes replicated (and thus drained) by competitors. Our empirical findings suggest that, in the context of family-owned SMEs, they can mitigate the risks of having their differentiated service innovations appropriated by developing long-term structures and customization opportunities that facilitate co-opetition strategies with competitors.

Second, our findings expand the current business model literature by providing a more nuanced understanding of the SME business model construct. For instance, our study addresses literature gaps in relation to business model innovations and strategies of SMEs ([Cucculelli & Bettinelli, 2015](#); [Lindgren, 2012](#)), by offering fresh insights into how their business models that are internally focused on value creation can germinate service innovations through the personal qualities that differentiate them from competitors, and how these innovations can co-create value for end consumers through co-opetition strategies with competitors. Given that there is not a universal definition of the term business model, yet many definitions include value creation as one of the core dimensions ([Clinton et al., 2018](#); [Nenonen & Storbacka, 2010](#)), our study enriches the literature by explicating how the business model of SMEs is used to identify how firms do business in order to create value ([Demil, Lecocq, Ricart, & Zott, 2015](#)). As value creation includes new capabilities, technologies and processes as well as partnerships for co-creation purposes ([Clauss, 2017](#)), our findings address contemporary research gaps in the business model literature and the external orientation of value creation. For instance, [Clinton et al. \(2018\)](#) recently noted the lack of research into the link between how SME business models create value and how they source operational knowledge from external stakeholders. Our findings therefore contribute to this literature stream by providing important insights on ways SMEs can learn how using their flexibility to collaborate with stockists in safeguarding routes to market will not only create value for end consumers through

delivery time efficiencies, but also in terms of faster decision making. In doing so, we offer a dual perspective of the value dimension of the organizational business model in a family-owned SME context. Such insights on the external orientation of value creation supplement our earlier findings on internal value creation through the strategic integration of elements of differentiation, family values and quality augmentation.

Third, we build upon and advance SDL theory by applying it in the unique context of family-owned SMEs co-creating value with external stakeholders. We consolidate our theoretical contributions in this regard by formulating a set of theoretical models that articulate the relationship between value creation and external stakeholders in the business model of family-owned SMEs. The unique insights gleaned from these theoretical models germinate new understandings that essentially advance the field of value co-creation and enrich the theoretical positioning of SDL. For instance, the current knowledge base of SDL argues that, due to the exchange properties of service and its centrality for business, any two given stakeholders will co-create value through mutual service provision ([Lusch et al., 2007](#); [Vargo & Lusch, 2004](#)). As a result of the current study's findings, we theorize that, when the two parties are family-owned SMEs and their distributors, the mutual service provision adheres to service delivery and service quality respectively. We further theorize that this mutual service provision is enacted through relationship management, which results in value creation for the third party (i.e., the end consumer) through service satisfaction.

Finally, by extending our understanding of value co-creation with stakeholders as an extension of the business model construct, we not only contribute to the understanding of its impact for entrepreneurship and management research but we also highlight the practical implications of our findings for family-owned SMEs. Through our insights and recommendations, practitioners in these firms can develop a more coherent understanding of their business model and how they can co-create value through their external networks, which [Andersson et al. \(2017\)](#) argue can establish improved business model efficiencies by way of financial and performance implications. The findings in this study thus add clarity to the more conjectural sentiments of other research by offering family-owned SME practitioners clear and succinct proof of how co-creating value with stakeholders will directly affect them. Specifically, our theoretical model in [Fig. 2](#) highlights how collaborating with different stakeholders in different capacities leads to fundamental changes to the firm's business model. Accordingly, our theoretical model provides practical insights into the step-by-step processes that these firms can follow with stakeholders, depending on which types of value they wish to co-create for consumers and which types of organizational business model adaptations/enhancements they are striving to develop. Ultimately, when we consider the prediction of [Carlock and Ward \(2001\)](#) that the 21st century family firm would incorporate an expanded business model of shared power and ownership, the findings of this study shed light on precisely *how* contemporary family business practitioners can expand their business model (through external orientation and stakeholder collaborations).

5.1. Limitations and future research directions

This research paper has offered significant findings, through our in-depth data collection approach, comprehensive analysis procedures and corroborative findings, into how family-owned SMEs collaborating with different stakeholders can benefit end consumers in terms of value creation and benefit the family-owned SMEs in terms of business model development. Although our conclusions above, and in particular our practical implications for practitioners, make suggestions of how these insights may assist them in enhancing performances outcomes, the parameters of our investigation preclude us from offering concrete evidence of the capacity in which performance outcomes can be increased. However, through the theoretical propositions that we make in

relation to the new insights offered by our findings, we invite other researchers to explore whether these propositions hold true in various organizational contexts and, resultingly, what specific and mensurable performance implications they have for these firms. In doing so, further study in this important field can build upon our groundwork in addressing the calls for research made by contemporary scholars (see Andersson et al., 2017).

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