THE CONCEPT OF THE BUSINESS MODEL OF THE FAMILY BUSINESSES

Krystyna Leszczewska

Abstract

The article examines the issue of business models of family businesses. The family businesses are specific entities that combine family relationships with the logic of conducting business. The subject of the business models of the family businesses is rarely undertaken in scientific research. Based on a review of literature and her own research, the author concludes that the business models used to describe methods of conducting non-family businesses, have a limited ability to explain business behaviour of the family businesses. The business model that would be able to characterize the business behaviour of family businesses should consider the specific characteristics of those entities arising from the interaction of family system and the enterprise system. The author proposes her own concept of the business model that can be used to describe the method of doing business by family businesses.

Key words: family businesses, business models, business models of family businesses.

JEL Classification: D 21, L 26.

1. Introduction

In the contemporary economy, family businesses are the predominant form of business entities. Family businesses are a particular type of undertaking – they combine family relationships with the logic of doing business. The combination of financial and material capital invested by the family in the company and involvement of family members makes family businesses unique (Craig, Salvato, 2012: 110; Chrisman, Chua, Sharma, 2005: 555–576; Basco, Jose, 2009: 83–85). Heterogeneous and complex family businesses offer a variety of challenges to undertake scientific research (Debicki, Matherne, Kellermanns, Chrisman, 2009: 151–166). What distinguishes this research discipline is the emphasis on paradoxes caused by the in-

1 Lomza State University of Applied Sciences, Institute of Business Administration / Państwowa Wyższa Szkoła Informatyki i Przedsiębiorczości w Łomży, Instytut Przedsiębiorczości, e-mail: k.leszczewska@wp.pl

DOI: 10.19253/reme.2017.03.009

There are no rules to precisely define the family businesses. Each definition reflects the individual approach to the relationship between the company and the family. The lack of formal legal criteria for distinguishing family businesses leads to the situation, in which different entities are categorized as family businesses, depending on what criteria is applied. The consequence of these assumptions is the determination of their share in the economy: share in the GDP and in employment. A significant scientific challenge is to create a widely accepted definition of family businesses explaining their socio-economic specificity (Litz, Steward, 2000: 131–148). The definition which describes the essence of family business often concentrates on the three criteria: the share in the ownership of the company, the share of a family in company management and succession. The definitions in the literature are characterized by different degrees of detailing. They are based on one, two or more criteria. Even if one criterion is taken into consideration, researchers adopt different required levels in order to consider a company to be a family business (among others 15%, 50% of company ownership in family hands).

In 2007 the group of experts on family businesses designated by the EU Memeber States realized the project which aim was to identify existing problems and good practice in family business in the European Union. The European definition of a family business was adopted in the final report. The definition suggested in the European Commission’s final report is based on the formula suggested by a Finnish working group on family entrepreneurship (established by Ministry of Trade and Industry of Finland in 2006).

A company of any size is a family business if:
— most decision-making powers is held by an individual (individuals) who founded a company or by an individual (individuals) who came into possession of the company capital or in possession of their spouse, parents, children or direct heirs,
— at least one member of a family or a relative is formally engaged in company management,
— the companies mentioned meet the definition of a family business if a person who founded a company or acquired a shared capital or his family or heirs possess 25 per cent of decision making powers in a company.

According to the author the introduction of this harmonised definition enables to compare research results, production of statistics on family business and formulating conclusions referring to functioning of these entities.

In Poland, research on family businesses has a lot shorter tradition than in the countries of Western Europe or America. Only dynamic business development after 1989 has increased the interest of scientists in the issues of business behaviour, including the issues of family businesses. The following research issues related to the functioning of family businesses were undertaken in the studies: a source of compet-
itive advantage, strategic behaviour, succession, innovativeness of the family businesses, internationalization, culture and values of family businesses (Kowalewska, 2009; Jeżak, 2014; Klimek, Żelazko, 2015; Leszczewska 2012; Sobiecki (Red.), 2014; Safin, 2007; Sułkowki, Marjański, 2009; Surdej, Wach, 2010; Więcek-Janka, 2013). An area which, according to the author, is inadequately studied is the issue of business models of family businesses.

The business model is an issue that rarely appears in scientific discourse in the context of family businesses. Research in this field was conducted by: A. Gimeno, G. Baulenas, J. Coma-Gros, M.W. Rutherford, A.M. Lori, L.S. Oswald. Empirical studies conducted by A. Gimeno, G. Baulenas, J. Coma-Gros (2010: 57–77) on a group of 1500 Spanish family businesses allowed researchers to make a typology of business models of family businesses, from the point of view of the business complexity and the complexity of the family involved in the business. Studies have indicated that the complexity of family and business relations is not a sufficient criterion to explain the market behaviour of the family businesses. It has been found that there are companies that despite different profiles of business and family complexity, use identical methods for managing the relations between the family and the business, and businesses which, despite similar complexity profiles manage relations between the family and the business differently, creating different organizational structures.

M.W. Rutherford, A.M. Lori, L.S. Oswald (2006: 329) published interesting results of empirical research on the model of the family businesses conducted among 934 businesses operating in the United States. In the conducted research the developmental model of the family business (DMFB) developed by Gersick, Davis, Hampton, Lansberg (1997: 15–24) was used. The results of the research allowed the authors to identify key groups of variables that may help explain the development of the family business. The expanded business models of family businesses proposed by the authors, include the following elements: stage of development of family business, owners, family, business. These factors, according to the authors, decide on the development opportunities of family businesses.

In Poland, the topic of business models of family businesses has not been the subject of scientific research. In the opinion of the author it is an important research area. This study was carried out to fill the existing gap in this area. As a result of conducted studies of literature and empirical research, the author has proposed her own concept of the business model and the elements forming it, which could be used to describe the way of conducting business by family businesses. The proposed business model would allow to capture the specificity of family enterprises (Leszczewska, 2016).
2. The essence of the business model

The business model is a concept increasingly appearing in the scientific works and practical studies. In world literature the term business model has been present for several dozens of years. For the first time, the term business model, was used in a scientific article by R. Bellman and C. Clark (1957: 469–503). Since the second half of the 1990s, an increase in the number of publications in which the concept of business model was used has been reported, it was associated with the use of the internet in business, which has inspired changes in ways of running a business. Comprehensive review of the literature of the years 1975–2009 devoted to the business models was made by Ch. Zott, R. Amit, L. Massa (2011: 1019–1042). The analysis found that in recent years there has been a rapid increase in publications in this field, but there was no agreed position on what the business model is.

The advantage of the approach of analysing the functioning of businesses through business model is trying to understand the organization as a whole, rather than focusing on its individual component elements. The disadvantages of this approach arise from the lack of clarity in defining and understanding the concept of a business model. Clarification of the category of a business model would facilitate scientific discussion and allow the use of this concept in practice. The lack of transparency in the term of a business model may be a potential source of confusion and it can lead to hindering of the research and lack of progress in defining business models as a tool supporting the management of the business (Leszczewska, 2013: 194–199). Business model cannot be considered as an abstract; its usefulness can be determined only in a particular business environment or context (Teece, 2010: 172–194).

Studies on the business models are conducted mostly from three research perspectives (Grzywa, 2013; Kalinowski, Vives, 2013):
1) from the perspective of the choices made by the organization;
2) from the perspective of the system of actions taken by the business;
3) from the normative perspective.

Each of the presented research perspectives can be attributed to a specific level of analysis of business models. The perspective of the choices made by the business illustrates the strategic level of analysis, the perspective of the system of actions taken by the business is derived from the organizational level of analysis and the normative perspective reflects the operational level of analysis.

The business model analysed from the perspective of choices taken by the organization illustrates the interaction between the choices made by the business and their consequences occurring over time. The business model in this approach is mainly based on the theory of strategy (Casadesus-Masanell, Ricart, 2009: 76). The business model analysed from the perspective of a system of actions is presented as a system of interdependent activities focused on value creation. In this perspective,
it is assumed that the business model is oriented towards the outside of the business; in addition to the activities implemented in the company, it includes connections to external entities that contribute to value creation. The business model analysed from the normative perspective defines the configuration of elements, which should comprise business model; it is a model, a concept depicting the way of doing business in a simplified way. The author accepts this research perspective of business model.

In the Polish literature on the subject of the operations of the businesses, business model concept did not become relatively popular. This issue was taken by T. Gołębiowski, T.M. Dudzik, M. Lewandowska, M. Witek-Hajduk (2008), B. Nogalski (2009), T. Falencikowski (2013), M. Duczkowska-Piasecka, K. Duczkowska-Małysz, M. Poniatowska-Jaksch (2012), A. Jabłoński (2013), M. Jabłoński (2013). Based on the analysis of the literature mentioned above a conclusion can be drawn that most authors emphasize while determining the business model, that it is a way to describe how to conduct business, indicating the sources of success or failure of the business. Most often it is assumed that the business model is the method adopted by the business, of how to use resources in order to provide customers with a range of products, whose value is higher than that of competitors.

The authors of the publications on business model have not agreed as to the set of elements that constitute a model. The analysis of the works, on the topic of a business model leads to the conclusion that the constitutive element of the business model, according to most authors, is the position of the enterprise in the value chain. In a number of publications the value for the customer and revenue sources are assumed to be the constitutive elements of the business model. Some authors consider the following as the elements forming the business model: target customers, strategy or its components, resources/expertise, relations with partners, offered products, sources of income, costs (T. Falencikowski, 2013). The analysis of the elements of the business model proposed by various authors exposes a wide variety of concepts.

One of the most popular concepts of business model due to its universal character and proven practical applications, is the concept by A. Osterwalder and Y. Pigneur (2012: 21–47). Business model by A. Osterwalder and Y. Pigneur is the sum of resources and activities, which the business organizes and executes to provide value for a specific customer. This model consists of nine interdependent components: Customer Segment, Value Proposition, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partners, Cost Structure. Elements of the business model proposed by A. Osterwalder, and Y. Pigneur can be grouped in four areas of activities (customers, offer, infrastructure and financial position), which constitute the essence of functioning of the business.

Differentiation of the business model concept, and elements constituting business model, formal and structural lack of transparency are an essential premise of the classification of business models. In the literature, attempts were made to create a typology of business models using different criteria to describe the different types

3. The concept of the business model of the family businesses

Based on a review of literature and her own research the author concludes that the business models, used to describe doing business by non-family businesses, have a limited ability to explain business behaviour of family businesses (K. Leszczewska, 2016). Business model, which would allow to characterize the behaviour of the family business should pay attention to the specific characteristics of these entities, which arise from the interaction of family system and the enterprise system. The author proposes her own concept of the business model that can be used to describe the method of doing business by family businesses.

The literature confirms the influence of the family on the business and the impact of business on family relationships. This influence can be negative or positive. This impact, according to the author, is visible in the implemented business models. In recent years, in the literature, more and more frequently the term familiness is used to determine the interaction of the family and the business. This term was introduced in the literature in 1999 by T.G. Habbershon and M.L. Williams, and in subsequent years it appeared in a number of scientific papers (van Wyk, 2012: 9892–9900; Habbershon, 2006: 879–886; Habbershon, Pistrui, 2002: 223–237; Irava, 2009: 32–38). Familiness is defined as a collective, synergic system interaction between family members and employees of the family business, which leads to the unique nature of family businesses. Familiness can be defined in structural, relational and cognitive dimensions. In structural dimension familiness should be understood as the ability to create strong links on the inside and outside of the business. In the cognitive dimension familiness means a common objective of actions and common language code of family members, whereas in relational dimension familiness means the mutual trust of family members and family code of values. The phenomenon of familiness is treated as a source of creating and generating a competitive advantage and wealth of family businesses (Muhlebach, 2013: 1–24; Chrisman, Chua, Sharma, 2005: 555–576).

A business model, which would allow more complete characterization of the family businesses, should enable an assessment of the effects of operations of family businesses as a function of family and of business functions. Taking the familiness factor in the concept of business model of family businesses into account, allows to recognize the impact of family on the functioning of business. A business model
The concept of the business model of the family businesses

specified in that way can give rise to questions, which relate to problems faced by family businesses in reality. Studies of the literature in the field of family businesses and business models incline the author to propose a definition of a business model that would enable a more complete characterization of family businesses: *The business model of the family business should take into account the impact of familiness on the functioning of the family business, business architecture of family businesses, the configuration of resources and the business’s relations with the environment.*

![Diagram of the business model of the family business](image)

**Fig. 1.** The business model of the family business

*Source: own work*

The author proposes a system of elements of the business model that would identify different business models of business activities in family businesses:

1. *Familiness* – the most important element of the business model of family businesses which allows to demonstrate the specificity of family business behaviours. This element of the business model should provide answers to the following questions:
   a) What is the influence of the founder on the functioning of the family business?
   b) What is the influence of family ties on the functioning of the business?
   c) How can decision making process in the business be determined: business first – business decisions are undertaken on the basis of economic criteria, family first – family interests are in the first place, or balance of goals of the business and the family?
   d) *Familiness* in the material capital: are the resources involved in the company owned by the family, are they capable of achieving competitive advantage or are they a burden?
e) Familiness in the financial capital: is the family’s financial capital involved in the business, how big is the role of the owner family in financing the activities of the business, is it an asset or does it inhibit the growth of the business?

f) Familiness in the human capital: are the members of the owner family employed in the business, what is the family’s participation in the management of the business, is the involvement of family members in the company an advantage or a burden?

g) Familiness in organizational capital: do values and family norms manifest themselves in the functioning of the company, does family influence manifest itself in the culture of the company, does the corporate culture contribute to the survival of the organization or does it pose a threat to the business’s development?

2. The resources of the business (material, human, financial) – this element of the business model should provide answers to the following questions:
   a) What is the structure of the business’s resources?
   b) What is the share of equity and debt capital?
   c) Which of the business’s resources is the most important to achieve a competitive advantage?
   d) Does the business have the resources difficult to counterfeit?
   e) What is the uniqueness of the business’s resources?

3. Business Architecture is understood as a formal description of the functioning of the organization, indicating the constituent elements of the organization and the relations between them, showing how the organization uses its potential to achieve strategic goals and decision making in an organization. This element of the business model should provide answers to the following questions:
   a) Who makes the strategic decisions in the business?
   b) What are the strategic goals of the business?
   c) How does a business create value for customers?
   d) How does a business build a competitive advantage?
   e) How is corporate governance formed in the business?

4. Relations with the environment (with customers, stakeholders, shareholders) – the element of the business model should provide answers to the following questions:
   a) How does the business build relationships with its customers?
   b) Does the business address its offer to one or more market segments?
   c) Which method of building relationships with customers is the most effective?
   d) Who are the key business partners?
   e) Does the business operate on the local, national or international market?
4. Conclusion

According to the author, such system of elements comprising business model would enable to capture the specificity of behaviour, which results from the interaction of three systems in the family business: business, family and ownership. Each business model of the family business may, in a specific situation, ensure satisfaction for the family. Change of the business conditions, generation changes in the business, strong competition may lead to an increase in the complexity of the business, and, as a result may lead to a change from one business model to another, in order to facilitate growth of the business and increase its effectiveness.

Study of the literature and analysis of the results of research conducted by the author lead to the conclusion that it is possible to classify the business models implemented in the family businesses from the point of view of the concentration of business’s activities on family or on business. The author proposes the following classification of the business models of family businesses:
— the business model which is focused on the family;
— the business model which is focused on the business goals;
— the business model with a balanced system of family and business goals.

Such typology of business models allows family businesses to capture the essence of market behaviour of family businesses and evaluate whether the predominant purpose of the activities of the business are the family objectives, or whether the company wants to operate in a manner as close to non-family business as possible and without exposing its family character, or if an implemented business model is balance business and family goals. The proposed definition of a business model and of a system of elements constituting a business model and the presented typology of business models may, from the point of view of the orientation of business’s activities on family or business goals, serve as the basis for further, in-depth empirical studies on business models of family businesses.

References

Streszczenie

W artykule podjęto zagadnienie modeli biznesu firm rodzinnych. Firmy rodzinne to specyficzne podmioty łączące w sobie relacje rodzinne z logiką prowadzenia biznesu. Tematyka modeli biznesu firm rodzinnych to zagadnienie rzadko podejmowane w badaniach naukowych. Na podstawie przeglądu literatury przedmiotu i przeprowadzonych badań własnych autorka stwierdza, że modele biznesu wykorzystywane do opisu sposobu prowadzenia działalności gospodarczej firm nierodzinnych mają ograniczoną zdolność wyjaśniania zachowań biznesowych firm rodzinnych. Model biznesu, który pozwalałby scharakteryzować zachowanie biznesowe firm rodzinnych powinien uwzględniać specyficzne cechy tych podmiotów wynikające z interakcji systemu rodziny i systemu przedsiębiorstwa. Autorka proponuje własną koncepcję modelu biznesu, którą można zastosować do opisu sposobu prowadzenia działalności gospodarczej firm rodzinnych.

Słowa kluczowe: przedsiębiorstwa rodzinne, model biznesu przedsiębiorstwa rodzinnego.