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Scaling Up Dynamics in Family Businesses: Case Study in the Digital Era.

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Introduction

The rapid evolution of technology and digital platforms has thoroughly transformed business landscapes, introducing new patterns for growth and expansion. Among these, the concept of scaling-up has emerged as a critical strategy for achieving rapid growth and market dominance. This thesis explores the complex dynamics of scaling-up strategies within family businesses, focusing on a case study in the digital era. Family businesses, characterized by their unique emphasis on socioemotional wealth (SEW), often face distinct challenges and opportunities when pursuing aggressive growth strategies.

While traditional family firms prioritize conservative growth to preserve legacy and maintain control, the digital age presents unique opportunities for rapid expansion through technological advancements. This situation raises important questions about how family businesses can balance their conservative nature with the need to scale up in a competitive digital market.

The primary research question guiding this study is: *How do internal and external relational dynamics influence the scaling-up strategies of small and medium-sized family businesses in the digital era?* By examining both internal family dynamics and external relationships with investors and strategic partners, this research aims to provide a comprehensive understanding of the factors that facilitate or hinder the scaling process in family firms.

The structure of this thesis is as follows: First, a detailed literature review will provide the theoretical foundation, discussing key concepts such as scaling versus growth, financing strategies, and the unique characteristics of family businesses. Next, the methodology section will outline the qualitative research approach, including the case study and data collection methods. The results chapter will present findings from in-depth interviews with key stakeholders in the case study family business. Finally, the discussion will connect these findings to existing literature, offering insights into the balancing act between rapid growth and maintaining family influence, and suggesting pathways for future research.

Through this investigation, the thesis aims to contribute to the scholarly discourse on family business scaling strategies, providing valuable insights for both academic researchers and practitioners in the field.

Key words: Scaling up, Family Business, Digital Era, SMEs, Business Growth

1. Expansion strategies

In rapidly evolving business environments where technology plays a pivotal role in firms' operations, generating competitive advantage is vital. Competitive advantage refers to a company's ability to outperform its rivals in a market (Geringer et al., 1989), it is the tangible or intangible characteristic of an organization that rivals cannot imitate without incurring substantial cost and uncertainty (Kogut, 1985; Porter, 1985). Competitive advantage typically arises from either cost leadership or differentiation strategies. Cost leadership involves producing goods or services at a lower cost, while differentiation entails offering unique features. Competitive advantage relies on leveraging valuable, rare, difficult-to-imitate, and non-substitutable resources and capabilities (Geringer et al., 1989). Orsato (2006) explains that competitive advantage stems from a firm's adept acquisition and management of various resources, including technical expertise, brand recognition, intellectual property ownership, financial stability, and organizational structure and culture. Understanding the concept of competitive advantage is crucial as it directly relates to why firms endeavour to scale up their businesses, a central theme of this thesis.

1.1 The Difference Between Growing and Scaling.

Growing a business typically refers to the incremental expansion of its operations, customer base, and revenue over time (Hoffman and Yeh, 2018). It involves steady and sustainable progress achieved through strategic initiatives, such as marketing campaigns, product diversification, and geographical expansion. Several frameworks detail the developmental growth stages of startups, most of them reflect on the organizational growth life cycle model. Steinmetz (1969) and Kroeger (1974) examined how managerial responsibilities and roles transform as a company advances through its growth phases. Greiner (1989) mapped out a sequence of growth and transformation, marked by crises of leadership, autonomy, control, and bureaucracy, each signalling a transition to a new phase of growth.

While growth is essential for the long-term viability of any enterprise, it tends to proceed at a moderate pace, allowing the organization to adapt gradually to changing market conditions and operational challenges (Hoffman and Yeh, 2018). In contrast, scaling refers to a time-limited phase of exponential growth, where the aim is not just to grow in size but to do so in a manner that significantly enhances the company's performance and competitive advantage. Unlike linear or incremental growth, which might simply involve adding new

resources at a similar rate to revenue increases, scaling seeks to add revenue at a faster rate than the costs associated with growth (Bohan et al., 2024). Furthermore, Duruflé et al. (2017) define "scale-up companies" as entrepreneurial businesses that have moved past the initial phase of exploration. They have identified their products or services and target market, transitioning into a growth phase characterized by a concerted effort to achieve substantial market penetration. While there isn't unanimous agreement among scholars regarding the definition of scaling, as will be discussed in the next subchapter, they do recognize the distinction between scaling and growing.

In a recent article by Bohan et al. (2024), explaining the difference between scaling and growing, two fundamental growth trajectories for businesses are illustrated in **Figure 1**. Linear growth, characterized by a steady, uniform increase over time, represents the traditional expansion model where progress is made incrementally. In contrast, exponential growth, depicted as scaling, shows a more dynamic pattern, with business size and capabilities amplifying at a rate proportional to their current state, leading to a rapid escalation in performance and output. The graph demonstrates the initially slow pace of exponential growth, which can be misleading. However, as time progresses, the exponential curve steepens dramatically, surpassing linear growth by a significant margin. This visual representation emphasizes the strategic advantage of scaling, which, unlike linear growth, harnesses the power of accumulating effects. Consequently, businesses that successfully implement scaling strategies can achieve unparalleled growth rates, capturing market share and establishing dominance more efficiently and swiftly than through traditional growth methods (Bohan et al., 2024).

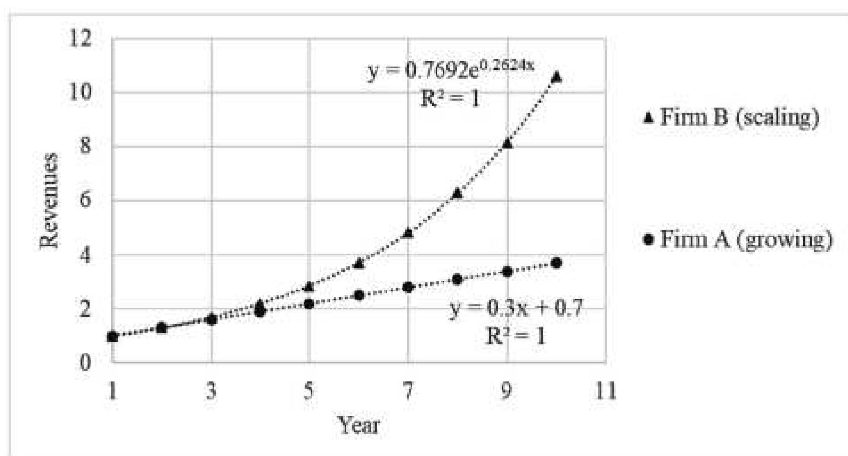

Figure 1 - Example of growing versus scaling: Time-based linear growth versus exponential growth. (Bohan et al., 2024).

1.2 Various Definitions of Scaling.

According to Picken (2017), startups move through a four-stage life cycle process, as seen in **Figure 2:** startup, transition, scaling, and exit. Each stage presents unique challenges for the founding team.

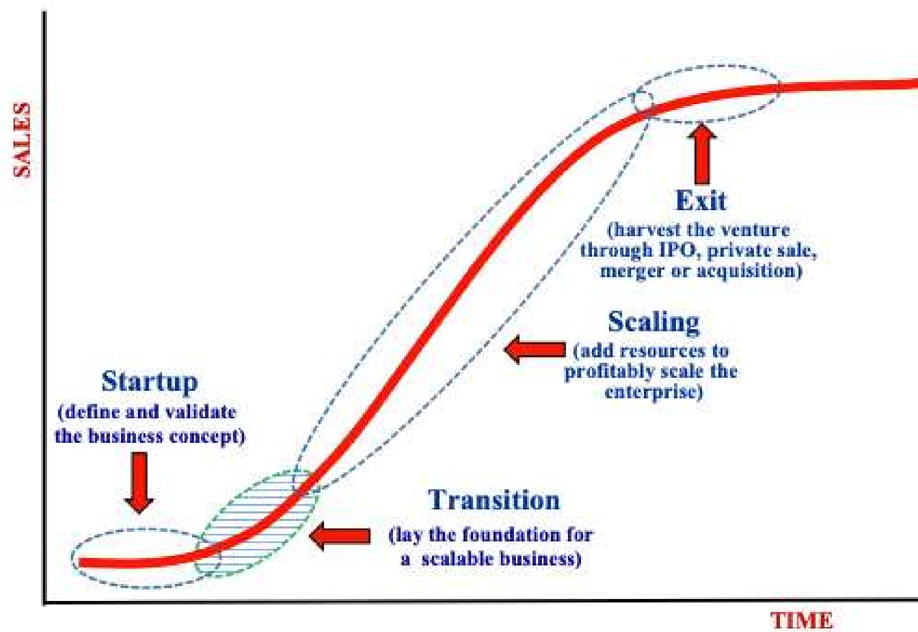

Figure 2 - Four stages in the life cycle of an entrepreneurial firm (Picken, 2017).

During the startup phase, the focus is on defining and validating the business concept, with limited resources and a narrow focus (Picken, 2017). The transition marks the bridge between the startup's simplicity and structured scaling, requiring more resources and new skills, facing the founding team with increasingly complex challenges (Hambrick and Crozier, 1985). Picken (2017) further outlines that in the scaling phase, significant resources need to be added, along with leveraging processes and partnerships to grow the business within the framework of the validated business concept and a sustainable business model. Moreover, to ensure a return for investors and to fund market leadership, consistent profitability is needed. Lastly, a successful exit strategy, such as an IPO, private sale, merger, or acquisition is necessary to realize the value created by the scale-up for both the entrepreneur and investors (Picken, 2017). Many ventures fail due to factors like management inexperience or premature scaling (Gorman and Sahlman, 1989; Boeker and Karichalil, 2002). The scaling phase is critical in a startup's growth process, determining its success or failure. The term's definition will now be explored in more detail.

The term "scaling" is relatively new in academic research, and in fact, scholars have been using it with inconsistent definitions. While scaling represents a significant aspect of entrepreneurship, there exists a limited understanding of its definition and how it diverges from conventional business growth. Conceptual ambiguity surrounds this phenomenon (Bohan et al., 2024). This inconsistency can be attributed to the lack of a definition of the term and the variations in definitions provided by different scholars (Autio et al., 2021; Coviello, 2019). Published studies define scaling as synonymous with high growth and even use the terms interchangeably (e.g., DeSantola and Gulati, 2017; OECD, 2007), while others raise questions about this practice (Autio et al., 2021).

The concept of scaling gained prominence in discussions about IT companies in Silicon Valley. It is characterized by their "ability to scale," which refers to their capacity to grow their businesses at impressive rates while operating at relatively low costs (Carr, 2004; Hoffman and Yeh, 2018; Jorgenson, 2001). On a similar note, a study by Carucci (2016) describes scaling as increasing revenue at a greater rate than costs, while Sutton and Rao's (2014) study highlights the challenge of scaling, where leaders and teams must adapt to local demands and replicate effective business methods.

One extensive study by Palmié et al. (2023) on the concept of scaling sheds light on the lack of consistency in the academic literature. It states that the definition must be addressed to provide organizational leaders, political decision-makers, and other stakeholders with theory- and evidence-based insights. The study explored prior published research on scaling in 74 leading journals across 7 sub-disciplines of business research, namely: (1) general management; (2) strategy; (3) entrepreneurship and small business management; (4) operations and technology management; (5) organization studies; (6) innovation; and (7) international business and area studies (Palmié et al., 2023). The authors of that study define scaling as *"an increase in the size of a focal subject that is accompanied by a larger-than-proportional increase in the performance resulting from the said subject,"* with the subject referring to what is being scaled, such as the number of customers, markets served, or products sold (Palmié et al., 2023). The study further divides scaling into four types: financial scaling; market scaling; organizational scaling; and volume scaling, as illustrated in **Figure 3.**

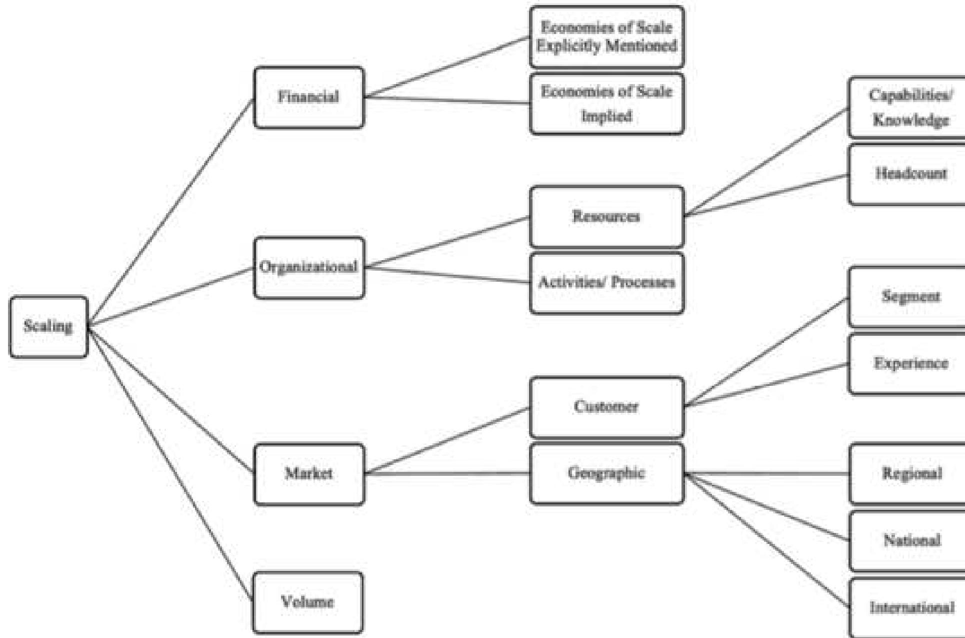

Figure 3 - Inductive derivation of four main categories of scaling (Palmié et al., 2023).

Financial Scaling refers to achieving economies of scale, where increasing production leads to lower average costs. Organizational Scaling is about expanding the firm's activities or processes efficiently as it grows. Market Scaling involves increasing the firm's reach, either through geographic expansion or by scaling customer segments and experiences. Volume Scaling is concerned with upscaling the unit output to meet market demand. Companies can employ these strategies at different lifecycle stages or in combination, adapting their approach to what's most relevant for their specific context and objectives at each stage *(Palmié et al., 2023)*.

Furthermore, the co-founder of LinkedIn, Reid Hoffmann describes four scaling strategies in the entrepreneurial landscape in his book Blitzscaling, they are: Classic Startup Growth, Classic Scale-Up Growth, Fastscaling, and Blitzscaling (Hoffman and Yeh, 2018). Classic Startup Growth adopts a cautious approach, emphasizing efficiency and controlled growth to mitigate risks and establish product/market fit. Classic Scale-Up Growth pursues sustainable expansion in a stable market through optimization and efficiency. Fastscaling, conversely, prioritizes speed over efficiency within a certain environment, striving to capture market share swiftly. Blitzscaling represents the most aggressive approach, sacrificing efficiency for rapid expansion without certainty of outcomes, aiming for swift market dominance. Hoffman and Yeh (2018) further state that a firm's scaling approach, follows a path similar to an "S-curve," as seen in **Figure 4**, representing different growth phases experienced throughout its lifespan.

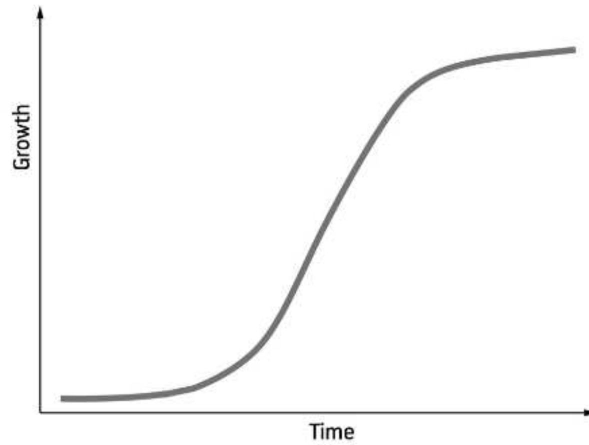

Figure 4 - Blitzscaling (Hoffman and Yeh, 2018).

Initially, Classic Startup Growth focuses on finding a suitable market for its products amidst uncertainty. After this phase, the firm moves into Blitzscaling, characterized by intense efforts to dominate the market quickly, often surpassing traditional growth rates. As the firm matures, it enters Fastscaling, where growth remains high but in a more predictable environment. Finally, as the firm establishes itself as an industry leader, it adopts Classic Scale-Up Growth, optimizing operations for sustained success. This scaling sequence not only mirrors the company's overall growth but also the growth trajectories of its individual products and business lines, shaping the company's overall narrative of growth (Hoffman and Yeh, 2018).

In this thesis, the author will adopt the definition of scaling as *"scaling means adding revenue at a much greater rate than cost"* (Carucci, 2016).

1.3 Motivators and Activities of Scaling.

Numerous factors motivate firms to pursue scaling-up strategies. Entrepreneurs are drawn to scaling due to the accelerated revenue growth it facilitates, the expanded market share it offers, and the potential of attractive buyouts (Jovanovic, 1982; Stinchcombe, 2000). Financial investors are interested in scaling since businesses that scale have financially lucrative exit options (Puri and Zarutskie, 2012). Policymakers find scale-ups appealing because of their potential to generate jobs, create wealth, and enhance productivity (Du and Temouri, 2015; Aernoudt, 2017; Duruflé et al., 2017). Scale-ups attract peers' interest and bolster their market reputation, thus opening up growth opportunities through partnerships and similar avenues (Eisenhardt and Schoonhoven, 1990). Innovative scale-ups gain a first-mover advantage, enabling them to set the industry standards, top-of-mind brand recognition, and set barriers to

entry for competitors (Lieberman and Montgomery, 1988). Overall, the benefits of scaling include the potential for achieving significant increases in performance metrics without corresponding increases in size or costs is challenging (Palmié et al., 2023).

1.3.1 - Scaling Activities.

Scaling involves the need for internal changes and encourages innovation within businesses. This means that scale-ups must adapt and enhance their organizational structures, processes, and systems to support rapid growth. This ongoing process fosters a culture of continuous improvement and innovation, which is critical for staying competitive and responding effectively to market demands and changes (Bohan et al., 2024) There are different sets of activities scale-ups perform to fuel their rapid expansion and secure a competitive position in the market. These activities are financing, innovation, digitization, and acquisition (Piaskowska et al., 2021).

Financing Activity

Scale-up firms must actively seek capital to support their accelerated growth (Barbero et al., 2011). Duruflé et al. (2017) argue that scale-ups need to be attractive to access capital. In general, growth through equity is preferred rather than debt financing due to the high levels of uncertainty involved in their businesses (Meglio et al., 2017). While scaling up, firms must carefully evaluate what their options are in fundraising, both concerning the amount needed and the frequency of funding required (Isenberg and Lawton, 2014). Rapid growth is a general nature of scaling up, which is considered capital-intensive, which leads to scale-ups repeatedly seeking investments. A fundamental step in financing is choosing the right partner, which shares the same vision for growth, the right investment partner brings financial resources, valuable expertise, and strategic guidance (Meglio et al., 2017). Venture capital funding is a common source of equity financing for scale-ups, particularly when uncertainty is high, generally, they manage their risk exposure across a portfolio of investments. Not only does venture capital provide financial resources but also access to valuable expertise, improves legitimacy, and lends credibility to the firm's growth prospects (Monaghan and Tippmann, 2018; Fraser et al., 2015; Kerr and Nanda, 2011).

Innovation Activity

While financial resources are critical for funding growth, scale-ups must allocate a portion of

the capital to other growth-enabling activities. One important activity in this regard is innovation (Coad and Rao, 2008). Innovation for scale-ups serves as a means of differentiation and an opportunity to grow by exploiting innovation at scale (Baden-Fuller and Haefliger, 2013). If the innovation is highly novel, it may lead to a patent application, granting the scale-up a monopoly license on the internal development or improvement of the firm's technological product or process (Gilbert et al., 2006). Colombelli et al. (2014) argue that although the scale-up has passed its exploratory stage and has settled on its core technology, it must continuously engage in innovation activities to pursue high growth. The aforementioned activities are particularly important in dynamic competitive markets (Coad and Rao, 2008).

Digitization Activity

Investing in digitization is crucial for scale-ups digital firms can easily adjust and scale their operations due to the inherently scalable nature of digital products and processes (Penrose, 1995; Nambisan et al., 2019). Digital technologies enable scale-ups to efficiently expand their customer base at minimal costs, fostering brand loyalty and market reach (Parker and Van Alstyne, 2017; Katz and Shapiro, 1994). Continued digitization efforts streamline operations, enhance efficiency, and contribute to rapid brand development and market penetration, positioning digitization as a cornerstone of scalable growth strategies (Amit and Han, 2017; Fischer and Reuber, 2011).

Acquisition Activity

Acquiring external resources can be crucial for scale-up firms it enables swift market expansion and dominance (Delmar et al., 2003; McKelvie and Wiklund, 2010). While organic growth through innovation may be time-consuming and prone to some drawbacks (Hu et al., 2017), acquisitions introduce new knowledge and facilitate market entry, particularly in international markets (Naldi and Davidsson, 2014). Acquisition activity signals market legitimacy and improves acquisition ability (Achtenhagen et al., 2017; Barkema and Schijven, 2008), making it beneficial for scale-up growth efforts.

As mentioned, financing, innovation, digitization, and acquisitions serve as the activity drivers for scale-ups. However, the development of these activities is costly and scale-ups must strategically allocate their resources, prioritizing certain activities over others to foster desired outcomes (Amit and Han, 2017; Carnes et al., 2017; Sirmon et al., 2011).

1.3.2 - Scaling in the digital era.

In the evolving landscape of modern business and technology, digitalization has emerged as a transformative force. The term, digitalization, refers to *“the ability to turn existing products or services into digital variants, and thus offer advantages over tangible products”* (Gassmann et al., 2014; Henriette et al., 2015). It is crucial for scaling because it significantly boosts the process, helping businesses grow their reach and impact more affordably (Bohan et al., 2024; Piaskowska et al. 2021). Digitalization includes technologies such as cloud computing, big data, artificial intelligence (AI), and the Internet of Things (IoT), which collectively mark a significant transition to solutions that are more interconnected, smart, and scalable across different industries (Drissi, 2021).

Cloud Computing stands at the forefront of this technological shift, offering a centralized platform that allows global accessibility of data and shared infrastructure. This technology not only facilitates the expansive storage and computation capabilities required by today's digital demands but also significantly reduces the infrastructural investments needed by businesses (Drissi et al., 2015; Drissi et al., 2019).

The Internet of Things (IoT) represents the network of smart devices capable of collecting and exchanging data, thereby enhancing connectivity and automation across various domains. IoT's ability to generate and manage vast amounts of data highlights the need for integrated solutions that can process, analyze, and leverage these data to drive innovation and value creation (Tan and Wang, 2010; Gubbi et al., 2013).

Big Data, characterized by its volume, variety, and velocity, plays a crucial role in managing the enormous datasets generated by IoT devices and other digital sources. The analytics and insights derived from big data enable businesses to make informed decisions, tailor their offerings, and improve operational efficiencies (EMC, 2012).

Artificial Intelligence (AI), with its capacity to learn from data, predict outcomes, and make informed decisions, serves as the brain behind the operation, analyzing the data collected by IoT devices to enhance decision-making processes and predictive capabilities. AI's application across the digital spectrum underscores its role in augmenting human intelligence and enabling smarter, more efficient systems (Maurício et al., 2018).

The synergy among these technologies not only amplifies their capabilities but also opens up new avenues for innovation and growth. By integrating cloud computing, big data, AI, and IoT, businesses can harness the power of digitalization to scale operations, enhance productivity, and foster sustainable growth in the digital era (Drissi Saadia, 2021).

Piaskowska et al. (2021) conducted a recent study examining the scaling strategies of high-growth firms, specifically those with digital business models. Their research, grounded in Penrose's (1995) theory of firm growth, they explored how firms apply activities such as financing, innovation, digitization, and acquisitions to facilitate scaling. By analyzing 184 Unicorn and emerging Unicorn scale-ups using cluster analysis, they identified four distinct scale-up modes, as seen in **Tabel 1**.

Mode 1: Network Growers These firms, constituting 7% of the sample, heavily rely on digital platforms and network effects for growth. Their focus on digitalization and acquisitions is evident, with significant international acquisition activity. Although they prioritize digitalization over human capital, they attract substantial financing and file a considerable number of patents. *Examples include Glassdoor, GoFundMe, and Airbnb.*	***Mode 2: Organic Innovators*** Representing 23% of the sample, organic innovators prioritize internal innovation, leading to specialized offerings. While their patents are not as frequently cited, indicating a niche focus, they attract reputable investors with strong potential for growth. *Examples include Affirm, Lookout, and Shopify.*
Mode 3: Focused Scalers Comprising 24% of the sample, they target narrow market segments with specialized innovations. They heavily rely on human capital for scaling and engage in above-average web-based relationship-building activities. Despite raising funding across numerous rounds, their investors rank relatively lower. *Examples include Udemy, Oscar, and Coursera.*	***Mode 4: Constricted Scalers*** The largest portion at 46% of the sample, constricted scalers grow relatively slowly due to limited resource allocation. Their focus on pipeline business models and physical offerings limits digitization activities, with below-average acquisitive and innovation activities. *Examples include Docker, Deliveroo, and TaskRabbit.*

Table 1 – Four Distinct Scale-up modes. (Piaskowska et al. 2021)

The study highlights the heterogeneity in growth strategies among scale-up firms, driven by varying priorities given to specific productive services (Demir et al., 2017). Notably, it observes significant differences in financing activity across different scale-up modes, suggesting implications for firms' sustainability and potential for market disruption (Nason and Wiklund, 2018). Additionally, the study findings indicate a frequency of acquisition activity among network growers and a higher level of innovation among organic innovators (Piaskowska et al., 2021). Overall, it emphasizes the critical role of resource allocation in shaping distinct scale-up modes, offering insights into the strategies adopted by Unicorn and emerging Unicorn firms in the digital era.

A recent study by Lange et al. (2023) identified seven core drivers of digital startups in massive and rapid business scaling (MRBS), emphasizing that MRBS is a process marked by exceptional growth relative to market averages, as measured by organizational expansion, customer base, and revenue in a time-efficient manner, and is propelled by significant capital investment and an entrepreneurial foundation (Lange et al., 2023). Recent technological advancements in digitization have greatly increased MRBS (Giustiziero et al., 2021). The study, which is rooted in qualitative research comprising 53 semi-structured interviews with founders, executives, and advisors, develops a framework detailing these drivers as pivotal components in the scaling process. The core drivers are outlined in **Figure 5**.

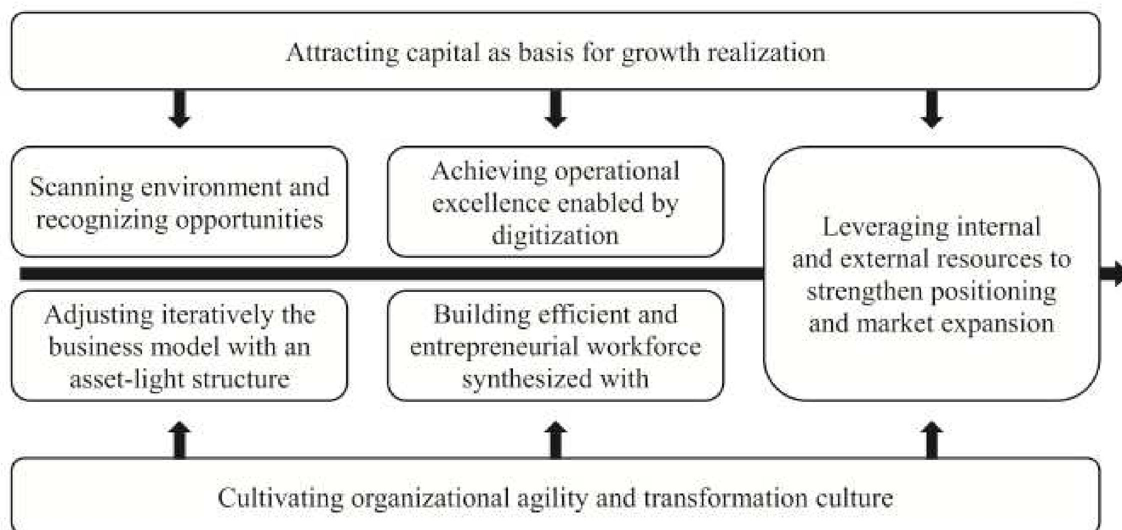

Figure 5 - Core drivers of MRBS. (Lange et al., 2023).

The identified seven drivers should be considered crucial in understanding the dynamics of MRBS. Scanning the environment and recognizing opportunities, along with adjusting the business model iteratively with an asset-light structure, involves continuously monitoring market trends and adapting business models to changing conditions (Chakravarthy, 1982; Teece et al., 2016). Achieving operational excellence enabled by digitalization and building an efficient and entrepreneurial culture with leadership and vision involves leveraging internal and external resources to optimize operations and foster innovation (Gebauer, 2011; Sher and Lee, 2004; Schoemaker et al., 2018). By enhancing competitive positioning and facilitating market expansion through strategic alliances and collaborations, organizations can adapt and thrive in dynamic environments (Luo, 2000).

Lastly, fostering agility and a transformative culture, along with attracting capital for growth, significantly impacts the other core drivers (Seo et al., 2021).

1.3.3 - Disadvantages and challenges that follow scaling.

Entrepreneurs and business leaders need to recognize that scaling necessitates careful navigation to mitigate potential risks and challenges (Hoffman and Yeh, 2018). When the statistical landscape of startup longevity and profitability is further examined about 90% of startups fail and 10% of startups fail within the first year (Zippia, 2023). Startups that surpass the two-year milestone face a 20-30% chance of failure, a rate that escalates to 45-50% by the fifth year, and further still, to 65-70% within the first decade (Arinkina, 2023). This data highlights the challenges that entrepreneurial companies face from establishing a business to operational stability. Moreover, only 1% of scale-ups reach the desired unicorn status, denoting a valuation of $1 billion USD (Arinkina, 2023).

Scaling presents a trade-off between speed and stability. Rapid expansion requires deploying resources and capital swiftly, straining financial reserves and operational capabilities. This pace may lead to operational inefficiencies, organizational silos, and resource constraints, potentially compromising product or service quality and customer trust (Hoffman and Yeh, 2018). Moreover, an intense focus on scaling can overshadow critical aspects like product-market fit, customer feedback, and long-term sustainability. Prioritizing short-term growth metrics over building a stable business model may lead to strategic missteps and eventual failure (Hoffman and Yeh, 2018).

Zook and Allen (2016) highlight a significant challenge in scaling, the weakening of the founder's mentality as companies grow, leading to complexity and reduced agility. This internal shift poses a major obstacle to sustained growth. Recognized by 85% of executives, these challenges emphasize the importance of assessing a company's internal health alongside external achievements (Zook and Allen, 2016). Initially, businesses represent the founder's mentality, characterized by agility and customer-centric focus. However, as seen in **Figure 6**, as they expand into “scale insurgents”, they face diminishing returns from this mentality due to increased complexity. Without careful management, they may evolve into "struggling bureaucracies" or stabilize as large incumbents with reduced agility (Zook and Allen, 2016).

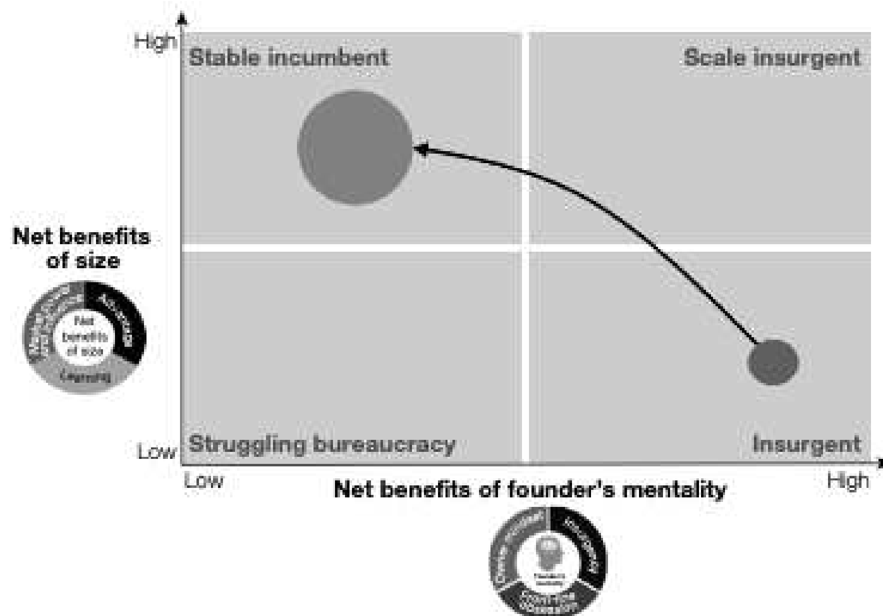

Figure 6 - The default path: problems that come with scale. (Zook and Allen, 2016).

As companies grow rapidly, maintaining cohesion and communication becomes challenging. Misaligned priorities and a culture of burnout may arise, leading to employee disengagement and turnover. To navigate these challenges, entrepreneurs must focus on customer value, build their business model based on feedback, and foster an innovative and adaptable culture. Strategic investment in scalable infrastructure, operational processes, and a diverse workforce is essential for sustained growth and competitiveness (Hoffman and Yeh, 2018).

2. Strategies for Growth.

In the world of business, scaling up and disruptive innovations are closely linked, a concept introduced by Christensen (2013), "*innovation that creates a new market and value network or enters at the bottom of an existing market and eventually displaces established market-leading firms, products, and alliances*". In rapidly evolving markets characterized by intense competition, achieving a first-mover advantage and later on competitive advantage becomes critical. It's not just important to introduce a disruptive product but also make sure that the entire business model is innovative (Christensen, 2013). Porter (1980) adds that a solid, well-thought-out strategy is crucial for bringing these innovative business models to life. This chapter will explore the strategies and internal structure companies need to make before and while they are scaling up.

2.1 - Strategy.

The concept of strategy in business has evolved, shaped by scholars and practitioners aiming to achieve competitive advantage and value creation. Michael Porter (1996) distinguished strategy from operational effectiveness, while the latter pertains to performing similar activities better than rivals, strategy is about choosing a unique set of activities that deliver distinct value to customers or comparable value at a lower cost. Furthermore, Porter identifies three fundamental strategic positions that firms can adopt: variety-based, needs-based, and access-based positioning. Each strategy is a tailored set of activities designed to achieve a unique market position. For instance, a variety-based strategy might focus on offering a wide range of products, while a needs-based strategy targets the specific needs of a customer segment, and an access-based strategy centers on reaching customers in unique ways or locations (Porter, 1996).

Beyond Porter, Henry Mintzberg (1987) introduced the Five Ps of Strategy as Plan, Ploy, Pattern, Position, and Perspective. Plan refers to a deliberate course of action outlining steps to achieve a specific goal. Ploy is a tactic to gain a competitive advantage. Pattern refers to consistent actions over time shaping strategy. Position is about the organization's place in the market relative to competitors. Perspective involves understanding how individuals view the organization and its strategy (Mintzberg, 1987).

The resource-based view (RBV) of the firm, introduced by scholars such as Wernerfelt (1984) and further developed by Barney (1991), shifts the focus towards the internal resources and capabilities of a firm as the basis for competitive advantage. According to RBV, a firm's unique resources and capabilities that are valuable, rare, inimitable, and non-substitutable form the foundation of its strategy and are the primary source of sustained competitive advantage.

In the digital age, the concept of business strategy has further evolved to address the challenges and opportunities presented by technology and globalization. Scholars like Yves Doz and Mikko Kosonen (2008) highlight the need for strategic agility, the capability of an organization to continuously adjust and adapt its strategic direction in response to changes in the external environment. The necessity of making strategic trade-offs, as Porter (1996) emphasizes, entails deciding not just what a company will do but also what it will not do. This focus enables firms to excel in critical areas and establish a sustainable competitive advantage.

2.2 – Industry Analysis.

The analysis of an industry involves understanding its structure, dynamics, and the various forces that influence its operations. According to Porter (1980), industries can be analysing their industry through the widely used Five Forces Framework, which assesses the bargaining power of suppliers and buyers, the threat of new entrants and the threat of substitute products or services. An industry can be defined as a group of firms that market products that are close substitutes for each other. The characteristics of an industry include its market size, growth rate, competitiveness, and regulatory environment (Porter, 1980).

In the current business landscape, the question arises whether Porter's Five Forces Framework still holds relevance. Isabelle et al. (2021) provide a comprehensive evaluation of the framework's applicability in today's rapidly evolving market landscapes. Despite critiques that it may not fully capture the digital economy's intricacies, it remains a fundamental tool for strategic industry analysis. However, to align with the 21st-century business complexities, the authors suggest four additional forces: the level of innovativeness, globalization exposure, digitalization threats, and the industry's susceptibility to deregulation activities. These additions aim to capture the modern industry's interconnectedness, technological advancements, and regulatory shifts more accurately. Thus, while Porter's foundational insights remain valuable, adapting the framework to include these broader competitive dimensions ensures its continued relevance in analysing today's dynamic industry environments (Isabelle et al., 2021).

Karl Moore and David Lewis (1999) argue that industries are not stagnant; instead, they continually change and evolve. This evolution is propelled by shifts in consumer preferences, advancements in technology, and fluctuations in the global economy. These changes have strategic implications for businesses. To stay relevant and competitive, firms must constantly adapt their strategies to align with the evolving landscape of their industry. This may involve adjusting their product offerings, adopting new technologies, or redefining their market positioning to meet changing consumer demands and stay ahead of competitors (Moore and Lewis, 1999).

As discussed in this paper, digital transformation has served as a common thread in businesses, enabling them to scale up, streamline operations, foster innovation, and gain competitive advantages. This transformative process extends beyond individual companies as it also affects industries, the role of technology is reshaping industries, altering competitive dynamics, and creating new business models (Bharadwaj et al., 2013). Despite its

opportunities, digital transformation also poses challenges to industries, demanding substantial investment and risking the outdatedness of existing products or processes (Chesbrough, 2006).

Another trend affecting industries is the growing emphasis on sustainability, driven by both regulatory requirements and shifting consumer preferences (Hart and Milstein, 2003). The regulatory environment significantly impacts the competitive landscape of an industry, influencing other factors like market entry barriers, profit margins, and investment attractiveness, which can vary greatly across different regions (Peng, 2009). Industries face challenges such as adapting to regulatory shifts that can quickly change competitive dynamics and dealing with market saturation, particularly in mature industries where growth prospects are limited, and competition is intense (Grant, 1991).

2.3 - Competitor Analysis.

Competitor analysis is a critical strategic tool used by businesses to identify, evaluate, and monitor the strengths and weaknesses of their current and potential competitors (Porter, 1980). To analyse competition, companies need to assess their industry dynamics and competitor behaviours, to adapt and innovate accordingly (Kotler and Keller, 2000). A detailed competitive analysis allows businesses to uncover the underlying structures that dictate competitors' intensity and profitability within the industry (Porter, 1980).

The process of conducting a competitive analysis involves several steps. Initially, it requires identifying both direct and indirect competitors (Porter, 1980). Following this initial phase, gathering data about these competitors from various sources such as public records, market reports, and customer feedback becomes essential. To explore competitor analysis, Ming-Jer Chen (1996) introduced a framework where two pivotal constructs are used to understand the concept, *market commonality* and *resource similarity*, as can be seen in **Figure 7**.

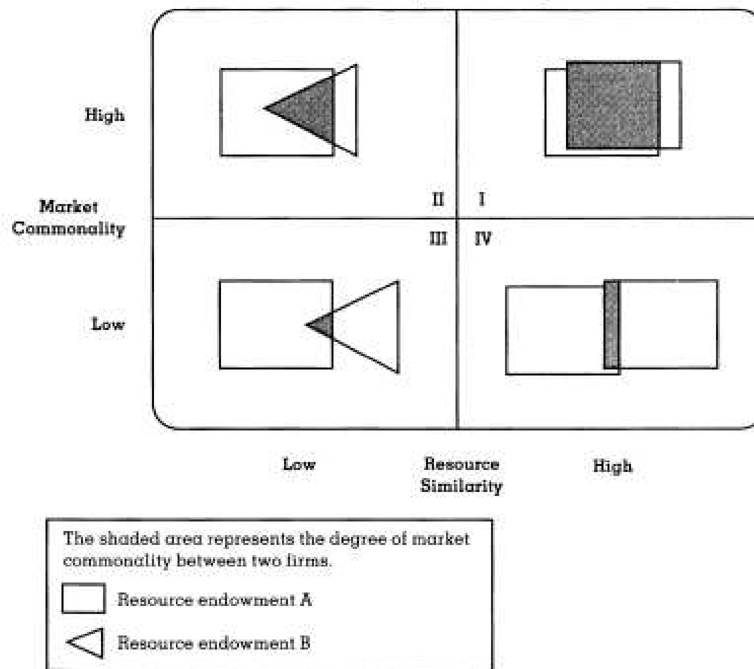

Figure 7 - A framework of Competitor Analysis. (Chen, 1996).

Market commonality refers to the number of markets in which two firms compete against each other. The vertical axis indicates the degree of commonality, with 'High' at the top showing a greater overlap in the markets they serve and 'Low' at the bottom indicating less overlap. Resource similarity represents how similar the companies are in terms of their strategic resources, like technology, talent, or capital. The horizontal axis shows this similarity, with 'High' meaning the firms have very similar resources and 'Low' meaning they have different types of resources. By analyzing these factors, companies can decide on their competitive approach. They might choose to be offensive by launching new products or undercut competitor prices or they might choose to be defensive by maintaining market share. (Chen, 1996).

A thorough analysis on competitors helps businesses understand what drives competition and profitability in their industry (Porter, 1980). Competitive analysis is vital for strategic planning, giving crucial insights for gaining and maintaining competitive advantage. Using different frameworks, businesses can navigate competition effectively. Continuous competitive analysis makes businesses agile, responsive, and well-prepared for competitive challenges (Porter, 1980; Rumelt, 2011).

2.4 - Entry- and pricing strategies.

As companies progress in their scaling-up efforts, validating entry strategies is crucial. According to Johnson et al. (2008), understanding and reconfiguring the business model, including the entry strategy, is critical in aligning with customer needs and the competitive landscape. Companies can choose from various entry strategies, including partnerships, licensing, franchising, joint ventures, strategic alliances, direct investments, and independent operations.

Partnerships can accelerate market entry and expand customer reach through shared resources and networks (Kaplan and Norton, 2006). *Licensing* offers a way to monetize intellectual property, enabling companies to leverage existing products or services with minimal investment (Shane, 2003). *Franchising* quickly spreads a brand's presence, but it needs strict systems to keep quality and consistency (Michael, 2003). *Joint ventures* involve two or more businesses coming together to form a new entity, pooling their resources to achieve common goals, such as entering new markets or developing new products, which can result in shared risk and increased capacity (Harrigan, 1985). *Strategic alliances*, unlike joint ventures, do not involve creating a new entity but allow companies to collaborate on specific projects, combining strengths to achieve strategic objectives while maintaining their independence (Gulati, 1998). *Direct investment* in startups or established companies in new markets offers the opportunity to drive innovation, gain market insights, and access new customer bases directly, which can be critical for rapid scaling and expansion (Dunning, 2008). *Operating independently* allows for full control over the business direction but demands substantial resources for market penetration and brand establishment (Porter, 1980). Ahlstrand and Mintzberg (2001) advocates for adaptability and responsiveness in the strategic planning process, enabling startups to remain flexible, adapt to market feedback, and seize evolving opportunities.

Another key aspect that needs to be considered is the pricing strategy. As Osterwald et al. (2020), shed light on "profit formula disruption," this involves rethinking how value is created and captured, moving beyond conventional models to embrace approaches that may include freemium models, dynamic pricing, or subscription-based services, all tailored to meet the unique demands of targeted customer segments and enhance the value proposition. Echoing this sentiment, Kim and Mauborgne (2014) advocate for "blue ocean strategies," where companies seek untapped markets, making the competition irrelevant. This often involves implementing pricing strategies that diverge from industry norms, thus creating new demand

and fostering rapid market penetration. Similarly, Porter (1985) highlights the significance of cost leadership and differentiation as part of a broader competitive strategy, which can be closely tied to how businesses structure their pricing models to gain a competitive edge.

2.5 - Financing.

During the initial stages of startups, challenges such as insufficient profitability, lack of security, and lacking proof of success often emerge (Bernstein et al., 2016). These factors may lead to inaccurate information and disputes between startups and investors (Lee et al., 2010; Nofsinger and Wang, 2011), leading to limited access to capital for companies in need (Berger and Udell, 2006). Financing and funding represent critical aspects of transitioning from a startup to a scalable enterprise. Entrepreneurs often mistakenly believe that securing a large investment guarantees success (Picken, 2017). Entrepreneurs need to build credibility and handle their finances wisely. This involves prioritizing tasks and resources effectively, managing capital and cash flow efficiently, consistently meeting financial estimates, showcasing trustworthiness in managing investors' funds (Picken, 2017). As Barringer and Ireland (2017) point out, startups often go through staged financing to minimize risk, with investments tied to the achievement of specific milestones. Investors prioritize efficient use of funds and expect a return on their investment. There are, however, various ways of financing for startups in scaling efforts.

Santos and Eisenhardt (2009) wrote that startups can finance themselves with *traditional investor financing*, either through loans or equity investments from financial institutions or individual investors. They further emphasize the importance of strategic alignment between investors and startups, advocating for financial partnerships that support the business's long-term objectives.

Gompers and Lerner (2004) discuss the role of *venture capital* in providing not only funding but also managerial and strategic support to startups, emphasizing the importance of selecting the right investors who can add value beyond capital. This highlights the dual role of venture capital in both financing and guiding startups towards growth and scalability. However, Wright and Robbie (1998), note that VC firms often seek rapid growth and quick returns.

Angel investors offer early-stage capital, often bringing their expertise, network, and mentorship to the table. Angel investors typically invest in startups at stages too early or too small for venture capital firms, filling a crucial funding gap (Kerr et al., 2010). Hall and Lerner (2010) delve into the impact of public policies on the financing of

startups, suggesting that *government interventions*, such as *grants* and *subsidies*, can play a crucial role in supporting early-stage companies, especially in high-technology sectors. Their analysis offers a broader perspective on the funding ecosystem, including the role of policy in facilitating access to capital.

Mollick (2014) addresses the emergence of *crowdfunding* as an alternative financing method, expanding the possibilities for startups to secure funding. Crowdfunding not only democratizes access to capital but also enables startups to validate their business concepts through market feedback. This addition underscores the evolving landscape of startup financing, where traditional barriers are being lowered through technological and social innovations.

Carpenter and Petersen (2002) explore the concept of *bootstrap financing*, where entrepreneurs rely on personal funds, revenue, and creative financial strategies to grow their businesses. This approach emphasizes the importance of financial judgment and resourcefulness in the absence of external funding, highlighting the diverse strategies entrepreneurs can employ to sustain and scale their ventures.

Initial Public Offerings (IPOs) represent a significant leap for startups, transitioning them into publicly traded companies. Ritter and Welch (2002) discuss the strategic considerations and the profound impact of IPOs on startups, highlighting the opportunities for substantial capital raising but also the challenges of regulatory compliance and market pressures.

Startups need to choose the most suitable approach to financing for them, one that not only provides the necessary capital but also supports the strategic direction of the company. Hall and Lerner's (2010) underscore the importance of alignment between a startup’s financing strategy and its overarching business model and growth objectives. This necessitates a deliberate assessment of various funding sources, from venture capital and angel investments to government grants and crowdfunding platforms, each offering distinct advantages and constraints. By choosing a path that complements their unique circumstances, startups can ensure that they not only secure the funding they require but also position themselves advantageously for future scalability and success (Hall and Lerner, 2010).

3. Family Business

As the case study of this thesis focuses on a first-generation family business attempting scaling efforts, the author briefly explores the theoretical literature on the characteristics of family

businesses, their financing strategies, the differences between them and non-family businesses, and how they approach internationalization in their expansion efforts.

3.1 - Definition of the term and how it differs from non-family businesses

A family business is distinguished by its emphasis on socioemotional wealth (SEW), reflecting the family's emotional investment in the company. This shapes strategic decisions, often prioritizing legacy, control, and identity over short-term financial goals. SEW influences how family businesses view their role not just in the marketplace but within the broader community and their own family legacy (Gomez-Mejia et al., 2011). Family businesses are deeply influenced by the values, culture, and long-term vision of the family that owns them. This influence shapes the daily operations that focus on sustaining generational continuity and preserving the family's legacy. Such firms often aim to support future generations by offering career opportunities, ensuring security, and fostering community involvement, thus reflecting a commitment to both familial and business legacies (Chrisman et al., 2005; Zellweger et al., 2010; Arregle et al., 2007; Gomez-Mejia et al., 2007). Non-family firms, on the other hand, tend to base decisions on the interests of a broader group of stakeholders, prioritizing shareholder value and operational efficiency. This outlines a clear distinction between how family and non-family businesses approach strategy, governance, and stakeholder engagement, underscoring the unique challenges and advantages built-in to family-owned firms (Miller et al., 2008).

Given that family firms prioritize SEW (Gomez-Mejia et al., 2007), their governance structures often include family members in key managerial roles or on the board, aligning business strategies with family values (Mustakallio et al., 2002). While this integration emphasizes family objectives, it may limit engagement with other stakeholders. Conversely, non-family firms focus on balancing the interests of various stakeholders, employing formal governance mechanisms and professional management practices (Daily and Dollinger, 1992). These firms concentrate on financial performance and competitiveness, with decisions influenced by cost-benefit analyses and formal governance mechanisms (Sirmon and Hitt, 2003).

3.2 - Characteristics of family businesses

Family businesses have a set of unique characteristics that exist in their operations, strategic decisions, and organizational culture. These traits not only define their identity but also shape

their interaction with the market, stakeholders, and broader community. Succession planning is critical for the long-term success of family businesses as it ensures a smooth transition of leadership and makes sure that the family's influence is within the company. This process involves carefully selecting and preparing individuals to take over key roles in the firm, which can significantly impact its strategy, governance, and performance. By properly planning for succession, family firms can uphold their legacy while effectively responding to evolving market conditions (Sharma et al., 2001).

Conflict resolution in family businesses is particularly significant due to the conflicts between family and business interests. Family dynamics influence how conflicts are addressed, impacting both the company's well-being and family relationships. Unlike non-family firms, which often have formal conflict management systems, family businesses tend to rely on informal, relationship-focused approaches to resolve disputes. This highlights the challenges and strategies involved in managing conflicts within family-owned firms (Kellermanns and Eddleston, 2007). Naldi et al. (2007) delve into the complex dynamics of innovation and risk-taking in family firms, revealing a cautious approach to innovation. Although family businesses are often viewed as risk-averse, the research highlights their strategic intent to balance innovation with the preservation of long-term sustainability and family assets. This tendency results in a selective engagement in risk-taking activities, which are carefully measured to ensure they do not jeopardize the firm's stability and continuity. Deephouse and Jaskiewicz (2013) note that stakeholder relationships in family firms often cultivate deeper and more enduring connections with stakeholders, including employees, customers, and communities. These businesses prioritize stakeholder welfare and community engagement, reflecting the family's values and commitment to social responsibility. Financial strategies in family businesses often prioritize stability over aggressive growth, aiming to safeguard family wealth while ensuring sustainability. This strategic approach reflects a delicate balance between innovation and tradition, demonstrating the family's commitment to long-term financial security (James, 1999).

3.3 - Internationalization strategies of family firms

As there is limited literature on scaling up in family firms, the author will explore papers discussing family firms' approaches to internationalization and how they differentiate from non-family firms.

Family firms are different from non-family firms in their approach to internationalization due to the deep-rooted tension between financial wealth and socioemotional wealth (SEW). This tension creates a mixed gamble, where decisions involve weighing potential financial gains and losses against the impacts on SEW (Alessandri et al., 2017). A prioritization of SEW, including elements like family control, identity, and legacy, often leads family firms to adopt a conservative internationalization strategy. This approach contradicts non-family firms, where the primary focus is on financial gains, making them more interested in the risk of pursuing new market entries (Gomez-Mejia et al., 2011). Family involvement in business operations can significantly impact internationalization strategies among family firms. The level of family engagement spans from firms where family members are deeply involved in both management and ownership to those where their participation is limited to ownership alone (Boellis et al., 2016). Family firms, where family members have direct control over daily operations, may adopt more aggressive internationalization strategies. In contrast, family-owned firms, where family involvement is primarily in ownership, may perceive internationalization as riskier due to the separation from daily management (Boellis et al., 2016).

The governance structure within family firms further influences their internationalization strategies. Family firms with a governance model that includes non-family members, such as external advisors or independent board members, may exhibit a different approach to internationalization. These firms can benefit from the external perspectives and experiences of non-family members, potentially leading to a more balanced view of the opportunities and risks associated with international expansion (Miller et al., 2011). Such governance structures can help mitigate the risk aversion typically associated with the desire to protect SEW, enabling family firms to pursue international growth more aggressively (Boellis et al., 2016).

Cultural dimensions also play a critical role in shaping the internationalization strategies of family firms. The cultural context within which a family firm operates can influence its perception of risk and opportunity in foreign markets. Family firms rooted in cultures with high uncertainty avoidance may be more reluctant to internationalize due to the perceived risks and uncertainties of entering new markets. Conversely, family firms in cultures characterized by strong collectivist values may view internationalization as an opportunity to extend the family's legacy and enhance its reputation on a global scale (Hofstede, 1984).

Lastly, the impact of generational transitions on the internationalization strategies of family firms cannot be overlooked. Succession events present both challenges and

opportunities for family firms looking to expand internationally. New generations may bring fresh perspectives, ambitions, and a willingness to explore international markets that differ from the more conservative approaches of predecessors. However, the process of transitioning from one generation to the next can also introduce uncertainty and potentially disrupt ongoing internationalization efforts (Zellweger et al., 2012).

3.4 - Financing family businesses.

Financing family businesses differ considerably from non-family businesses due to their nature. Financing family businesses involves methods that align with their goals for sustainability, legacy preservation, and intergenerational transition.

3.4.1 - Different forms of financing.

While many family firms prioritize retaining control within the family, some choose equity financing to support growth without excessive debt. Venture capital, though uncommon, can provide necessary funds and strategic guidance without necessarily handing over family control, given favourable negotiation terms (Upton and Petty, 2000). However, family businesses often prefer debt financing over equity to maintain ownership stakes. Gallo and Vilaseca (1996) outline how these firms use bank loans and lines of credit, relying on established relationships with local banks prioritizing stability over rapid expansion. Internal funds play a significant role in family business financing, with profits reinvested to support gradual and stable growth, as emphasized by Daily and Dollinger (1992). In regions with government support for small and medium-sized enterprises (SMEs), family businesses may access grants and subsidies to lower expansion costs (Gallo and Pont, 1996). Additionally, family firms may engage in strategic alliances and joint ventures to access new markets and technologies (Gallo and Estapé, 1992).

As an additional point, for established family businesses, setting up a family office can provide practical financial management and investment support. Family offices are used in strategic financial planning, focusing on long-term wealth preservation and growth (Rosplock, 2014). They often adopt a holistic approach to wealth management, integrating investment strategies with broader family objectives, such as charity and sustainability (Wilson, 2012). Moreover, family offices are key in facilitating the succession planning process, ensuring a seamless transition of wealth and leadership across generations (Hamilton et al., 2006).

3.4.2 - Mergers and Acquisitions

Mergers and acquisitions (M&As) present both opportunities and challenges for family businesses. The decision to engage in M&As is driven by various factors, including strategic realignment, growth opportunities, and the need for succession solutions (Mickelson and Worley, 2003). Financial and emotional rewards from selling the family business are significant motivators, offering liquidity, retirement options, and opportunities for new ventures (Mickelson and Worley, 2003). M&As can serve as an avenue for family firms to address succession issues, allowing for continuity of the business when a family successor is not available or willing to take over. In addition, it can provide an exit strategy for family members seeking to retire or to capitalize on their investments (Handler, 1994). Gilbert (1989) notes that many family businesses decide to transfer ownership due to financial incentives and lack of a clear future vision. Family-owned small and medium-sized enterprises (SMEs) face hurdles when planning their exit strategies, especially during times of poor performance.

Studies on strategic changes in family firms show that these businesses often prefer mergers rather than outright sales when they're doing poorly. The preference for merging over selling stems from a desire to protect the SEW, enabling families to uphold their legacy and emotional connection to the business. While outright sales may provide financial advantages, they often lead to relinquishing control and dismissing family ties with the business. Mergers, therefore, offer a strategic compromise that balances financial gains with the preservation of SEW (Skorodziyevskiy et al., 2024). However, the process of M&A in family businesses is influenced by complex family dynamics and emotional attachments, often leading to reluctance. A considerable percentage of family firms only survive into the second generation, with fewer reaching the third generation (Ward, 1987). Reluctance to explore succession options arises from various concerns, including the founder's fear of confronting mortality, key managers' resistance to change, and avoidance of difficult decisions (Aronoff and Ward, 1992).

Despite these challenges, M&As offer family firms a pathway to either grow or exit. Engaging in M&As allows family firms to achieve diversification, scalability, and innovation, by either joining forces with or acquiring other businesses that offer complementary strengths or market presence (Hanson et al., 2016). Success in M&As is not solely determined by financial performance and strategic fit, cultural like-mindedness also plays a crucial role. Investors are often sceptical of mergers with perceived cultural differences (Chatterjee et al., 1992). Therefore, in M&A transactions, family firms bring the benefit of a strong, cohesive culture, which can provide a stable foundation for post-acquisition integration (Nahavandi and

Malekzadeh, 1993). The importance of addressing human resource and cultural issues in post-acquisition integration cannot be understated, with key success factors including effective leadership, communication, and cultural integration (Cartwright and Cooper, 1993; Cartwright and Cooper, 1995). This is especially applicable for family businesses, as their cultures are often deeply ingrained and can significantly impact the combined entity's performance and the overall success of the M&A transaction (Schein, 1983). Family firms that are capable of managing and leveraging their unique culture and values can facilitate smoother transitions and better outcomes in M&A deals (Sharma and Manikutty, 2005).

3.5 - Concluding remarks and hypothesis.

Now that the literature has been covered, ranging from defining the term scaling up to identifying the core differences between family and non-family firms, we are one step closer to answering the research question: *How do internal and external relational dynamics influence the scaling-up strategies of small and medium-sized family businesses in the digital era?* On that note, the author conducted extensive research on the background literature regarding scaling-up strategies in family firms but without success. For that reason, the author chose to use a single-case study qualitative approach to investigate the phenomenon more closely, as will be further explained in the methodology chapter below. To define this better, four hypotheses were formulated:

Hypothesis 1: Family firms are more reluctant to scale up due to their desire to retain majority ownership and control of the company.
Hypothesis 2: Firms, whether family-owned or not, planning to grow through scaling-up strategies, do not mind selling the majority share, given that the scaling-up strategy has a high percentage of success.
Hypothesis 3: Family firms are more likely to adopt scaling-up strategies if funding comes from an angel investor, as opposed to venture capital or similar funding sources.
Hypothesis 4: Scaling-up strategies take a longer time in family firms due to their approach to financing.

Table 2 - Hypothesis.

4. Methodology

To study the challenges and barriers family firms face in scaling up in the digital era, I employed a grounded theory (GT) qualitative method, incorporating a single case study. Qualitative research methods are designed to reveal the behavior and perceptions of a group of people or an individual concerning a particular topic (Punch, 2014). These methods originate from the social sciences and aim to understand people's thoughts and perceptions on various matters. Qualitative research findings are communicative and descriptive, using in-depth interviews, focus groups, ethnographic research, content analysis, and case studies as methods (Bogdan and Biklen, 1997).

As the researcher, my role was crucial, as my perspectives and beliefs must not influence the participants. I gathered and analyzed data with an emphasis on interpretation, seeking to illuminate rather than simply describe. The findings in qualitative research should not be generalized; instead, the focus should be on researching the individual to uncover distinct insights into their experiences (Esterberg, 2002).

Inspired by Dr. Robert K. Yin's "Case Study Research and Applications: Design and Methods" (Yin, 2017), I used a single case study approach. Yin suggests that a single case study is particularly well-suited for unique phenomena or when there is a gap in the existing literature. In reviewing the literature, I found a lack of studies specifically addressing the scaling-up process in family firms, defined by Carucci (2016) as "adding revenue at a much greater rate than cost." Thus, I considered a single case study approach was suitable for this research context, as it enables a thorough exploration of the unique challenges, barriers, complex dynamics, and decision-making processes influencing growth strategies in a family firm. This approach resonates with the principle that qualitative research aims to understand the participant's perspective, their story, and how they experience the topic of discussion (Esterberg, 2002). Moreover, I used interviews, especially semi-structured ones, as a primary form of data gathering to facilitate an in-depth understanding of the participant's attitudes towards the research topic (Howell, 2012; Punch, 2014).

4.1. The Choice of a Grounded Theory Approach

To achieve the aim of this paper, I selected the GT methodology as the most appropriate for this exploratory qualitative study (Charmaz, 2014; Corbin and Strauss, 2014). GT is typically an inductive approach aimed at developing a theory or an explanation by thoroughly study a

range of individual cases through a process known as constant comparison (Glaser and Strauss, 2017). The logic of GT was summarized in Charmaz's (2014) definition as:

> *"Stated simply, grounded theory methods consist of systematic, yet flexible, guidelines for collecting and analyzing qualitative data to construct theories from the data themselves. Grounded theory begins with inductive data, and invokes iterative strategies of going back and forth between data and analysis, uses comparative methods and keeps you interacting and involved with your data and emerging analysis."*

Since my study aims to explore the process of scaling up strategies in family firms in the digital era, I found the GT approach proved particularly useful due to the limited availability of previous empirical studies in this area. This method provided me with in-depth insights into the challenges and barriers that come with scaling up strategies in the single case study I used. Grounded theorists agree that it is crucial to develop new knowledge from the collected data rather than from pre-existing frameworks to avoid limiting the researcher's sensitivity to emerging themes and thus affecting the data interpretations (Charmaz, 2014).

4.2. Sampling Strategy

I employed purposive sampling to select participants for this study. This strategic choice ensured that the individuals interviewed had direct experience and insights into the scaling-up process within the context of the case study analyzed. The purposive sampling method allowed me to carefully select the subjects that could provide rich, relevant, and diverse perspectives, critical for the depth of qualitative research (Patton, 2002). The case study firm analyzed in this thesis is a B2B company specializing in brand measurements. The company enables businesses to evaluate their brand positioning and benchmark against industry standards. Currently available in PDF format, the company is nearing completion of an in-house software solution to deliver and present results. The product has achieved considerable success in the company's domestic market, suggesting potential for international expansion. The company's management is actively exploring scaling up opportunites, yet they remain cautious, aiming to maintain majority family control for the foreseeable future. The participants job titles within the family firm that I interviewed include: The Founder and CEO, COO, Head of R&D and a Board Member. I chose to select these roles for interviews because they form the core team driving

the company's scaling-up processes. They offer a broad perspective on the company's operations, strategy, and governance, thereby providing a holistic understanding of the business. Given that the analyzed case study involved is a small company with few employees wearing multiple hats in the scaling-up process, I reached saturation after four interviews. Despite that I asked participants to suggest any additional key informants, no further suggestions were provided. In qualitative research, saturation refers to the point at which no new information or themes emerge in the data. It signifies that the data collection process has been thorough enough to ensure that further interviews would yield negligible fresh insights. This marks a pivotal moment in qualitative research, indicating that the collected data is sufficient to understand the phenomena under study (Guest et al., 2006). Despite the relatively small number of interviews, the depth and richness of the information obtained were solid.

4.3. Data Collection

Given that the participants were located in various countries, I conducted data collection through qualitative, one-on-one online interviews. These in-depth semi-structured interviews featured open-ended questions and were conducted via Google Meets, with recordings made on a smartphone. Each session began with formal greetings and a *brief introduction* to the thesis topic. The conversation then moved to the main interview phase, guided by open-ended questions designed to obtain in-depth insights into the challenges, barriers, and scaling-up strategies employed by the case study firm *(the list of questions can be found in the appendix)*. I avoided leading questions, which might suggest a desired answer, to prevent bias in responses. Similarly, questions that prompt simple "yes" or "no" answers were bypassed in favor of those encouraging expansive and reflective replies. I skillfully managed the conversation flow and strategically used silence to enhance the depth of information gathered, allowing for the observation of critical non-verbal cues such as tone, facial expressions, and gestures, which were used for comprehensive understanding (Howell, 2012). To maintain ethical standards, I informed participants at the beginning about the anonymity and confidentiality of their responses. This assurance was intended to create an environment where participants could feel comfortable sharing honest experiences and perspectives, thus enhancing the richness and authenticity of the data. As previously mentioned, all participants made relevant contributions to the topic, which made them valuable participants in the study. To ensure the responses could not be traced back to their individual names I anonymized them as Participants 1-4 (P1 to P4).

4.4. Data Analysis

I conducted data analysis using Grounded Theory (GT), as explained by Charmaz (2014) and Glaser and Strauss (2017). This methodology was instrumental in developing a theoretical framework from the ground up, based on the data collected from interviews. The process involved several key steps:

1. **Initial Coding:** I broke down, examined, compared, conceptualized, and categorized the data. This step is critical in identifying significant phrases and patterns that begin to tell a story or highlight a process within the data.
2. **Focused Coding:** I used the most significant initial codes to analyze large amounts of data. This phase involved synthesizing and explaining larger segments of data, where the most frequent or significant initial codes informed me about the core processes occurring in the data set.
3. **Axial Coding:** I reassembled data that were fractured during initial coding to give a sense of coherence and structure. This step involved identifying relationships between codes, categories, and subcategories.
4. **Theoretical Coding:** I integrated and refined the categories to form a theory. The aim here was to stitch the fractured story back together into a coherent whole that provides a detailed understanding of the subject under study.
5. **Memo-Writing:** Throughout the coding process, I wrote memos to capture thoughts, hypotheses, and the evolving theory. This iterative component was vital for grounding the emerging theory in the data.

The back-and-forth process of GT, moving between gathering data and analyzing it, allowed me to gain a detailed look at how the case study firm attempts to tackle challenges that arise in the scaling-up process.

4.5. Ethical Considerations

Ethical considerations were important throughout the study. Before conducting interviews, I informed the participants about the study's purpose, the use of their data, and their rights to confidentiality and anonymity. Consent was obtained from all participants, ensuring they were aware of their participation's voluntary nature and could withdraw at any time without

consequence. The commitment to ethical research practices extended to the treatment of data, with measures in place to protect participants' identities and sensitive information.

4.6. Researcher's Position

As a member of the family owning the business under study, I acknowledge that my involvement may influence participants' responses. To mitigate potential biases, I implemented several precautions to ensure a professional and unbiased approach:

1. **Neutral Stance During Interviews:** I maintained a neutral stance during interviews, carefully avoiding any leading questions or indications of personal opinion and bias.
2. **Conducting Interviews in Neutral Settings:** I conducted interviews in neutral, professional settings to create an environment that encouraged open and unbiased communication.
3. **Ensuring Anonymity and Confidentiality:** I assured all participants of their anonymity and the confidentiality of their responses. This measure was taken to encourage straightforward and honest feedback.
4. **Encouraging Honest and Independent Opinions:** I emphasized to participants the importance of answering based strongly on their own opinions. I asked them to put themselves in the mindset of speaking to a random researcher rather than someone involved in the business. This approach aimed to further reduce potential bias and ensure the authenticity of their responses.

By acknowledging my dual role and the steps I took to address potential biases, I aimed to maintain a balance between personal involvement and professional research standards, providing a reliable and unbiased exploration of the family business dynamics.

5. Results

This results chapter will present the findings from interviews with four key figures involved in a family business's scaling-up efforts: P1, The Head of R&D; P2, the Founder and CEO; P3, the COO; and P4, the Board Member. These discussions provide valuable insights into the research question and the hypotheses presented.

The concept of scaling up within family businesses is an under-researched area, especially given the term's relative novelty and complexity. This gap in the literature prompted a deeper investigation into the interplay of scaling up and family business dynamics. With the emergence of Industry 4.0, opportunities for business development have expanded, allowing entrepreneurs to scale operations rapidly with fewer resources than before.

Typically, scaling up involves securing funding by offering equity stakes, leading to the dilution of the founder's ownership. Over time, this could lead to a complete divestment as the company is acquired. However, this model contrasts sharply with family businesses, which often resist diluting ownership to retain control and preserve socioemotional wealth, reflecting the family's emotional ties to the company.

This discrepancy raises the question: *How do internal and external relational dynamics influence the scaling-up strategies of small and medium-sized family businesses in the digital era?* The insights collected from the interviews aim to shed light on this complex issue.

5.1 - Scaling Up and Financing.

The participants were all aligned on their understanding of scaling up and how it differs from growing. Participant 1 (**P1**) described scaling as follows:

> *"I think scaling, in general, means exponential growth. It's like growth on steroids…. I think the essence and most critical aspect of scaling is that it doesn't just mean a 1% growth one year, 3% the next, and 8% the following year. It means exponential growth, like 10%, 50%, or even 350% growth."*

P2 further explained the difference between scaling and growing:

> *"A scalable business has unlimited potential to grow across markets and industry sectors because its product is ready to be multiplied with an indefinite multiplier. That's what I understand scaling to be. However, this is not the same as growing; growing can be much slower."*

Scaling a business typically requires a scalable product, which is why the concept of scaling is relatively new in the literature. Historically, companies had the potential to grow linearly; that is, with each product sold, the associated costs also increased. However, with technological advancements and an increased focus on sectors driven by intellectual property, companies now see opportunities to scale. Scaling allows for a significant increase in earnings relative to the associated costs.

In order for businesses to scale up, they require financing. Various financing methods have been outlined in the theoretical chapter. The most common ways to finance a scaling path include private equity and venture capital. The participants were asked to rank their preferred financing options for their business. The options were venture capital investment, general investment, angel investment, joint ventures, crowdfunding, debt financing, or something else.

> **P1:** *"I actually think the top three options would depend heavily on the party involved. The first would be an angel investor, someone who has a lot of money, likes the idea, understands it, and believes in the team. They would be willing to invest and probably wouldn't be too involved. A general investment and a joint venture would also be top choices. It could be a very beneficial partnership with someone who brings more to the table than just money, such as expertise in IT or experience in scaling and expanding into new markets."*

> **P2:** *"A wealthy individual or a company owned by a small group of people (Angel Investment). For the second option I would have to say a specialized VC that understands the business well enough to provide more than just money."*

> ***P3:*** *"It's amazing to think how long we've come without getting any big funding. Of course, it would be great to be able to continue like that, but it is very difficult. If I had to pick one it would be an Angel Investor.*

P4: *"The dream investor for Brandr Index could be a fund or an angel investor, but they must be shareholders who understand the business and bring additional value to the table, such as specialized knowledge. They should strengthen the company and support, especially during tough times, yet remain down to earth when the feeling is like we've conquered the world…"*

When participants were asked about funding through bank loans they were strictly against it.

P1: *"Funding through a bank is probably the least desirable option, especially given the current landscape."*
P2: *"Absolutely not. I mean, not loans where I would have to be the default person."*
P3: *"Definitely not a bank loan!"*

As discussed in the literature review, family businesses often prioritize growth strategies where they do not sell away equity, which often leads to slower growth. They may favor internal funding and debt financing. Therefore, it is interesting that participants are so distinctly opposed to that particular financing option. However, it is important to distinguish that funding for a scaling-up journey differs from funding for slower growth. The literature primarily discusses these concepts in distinct terms. Scaling up typically involves rapid expansion and requires a substantial amount of capital to accelerate development and market penetration. This is in contrast to slower growth strategies, which often rely on incremental gains and may utilize more conservative financing options like reinvesting profits or moderate borrowing. Participants are all aware of their objectives to scale up their business; however, they were asked if there was an option to not attempt scaling-up strategies and continue to grow organically instead. **P1** argues:

"We definitely need an investment, mostly because we're currently bootstrapping organically. I believe we can continue to bootstrap for a little while longer, especially since so much of our focus is on IT right now. In my opinion, we have the foundation to actually scale."

P2 pulls the same strings and notes that:

> *"We do want to take bigger steps, but one scenario could be to hire maybe two high-level individuals, costing us 15,000 euros each per month. So that's 30,000 euros. That's already a considerable amount. For that, we would need an investor coming in for a small share, but the growth would still be 'organic'"*

P3 mentioned that within the management team, there has been a discussion regarding the potential scenario of not accepting external investments and instead pursuing organic growth. However, the factor of time plays a significant role in this decision. P3 highlighted that the initial stages of business growth have placed a substantial stress load on the founding team, making the process challenging to sustain without additional support. Given these circumstances, P3 emphasized that the current stage in the company's lifecycle presents an ideal opportunity to secure external funding to fuel the company's exponential growth. **P4** also mentioned that the company is currently in a unique position to become a dominant force within its sector. The business landscape has undergone a significant transformation, shifting from a highly competitive environment with multiple players to one where a single entity can achieve market dominance. He emphasized that this change presents both a strategic advantage and challenges for the company. Specifically, if the company continues on a path of slow growth, it risks allowing a competitor to enter the market, grow more rapidly, and potentially dominate the sector.

5.2 - Family Business Dynamics

The case study of this thesis focuses on a startup with a scalable product within the intellectual property industry, a sector that is experiencing growth. A notable aspect of this startup, distinguishing it from others, is that it is family-run. Typically, family businesses prioritize socioemotional wealth, retaining control, preserving legacy, and planning for succession. However, the nature of this startup's product requires rapid growth to fulfill its potential, as highlighted in the previous subchapter, necessitating significant financial investment. This need challenges the traditional family business model, which typically avoids introducing shareholders outside the family. Therefore, a complex dynamic emerges regarding the ideal path to choose: one option is to continue growing organically and risk not reaching the full potential of the business, or alternatively, to seek investments to finance rapid growth but risk losing ownership and control.

To better understand this dynamic within the case study, participants were asked to define the term family business.

> **P1:** *"Family business means that the majority of the ownership has family ties. Typically, you would expect several family members to be involved in the company, often in management positions."*

> **P4:** *"I would define it as a family that either works in the company, serves as the backbone of the company's management, or forms the backbone of ownership."*

P3 sheds light on how a family business differs from a traditional one, noting that it can be difficult to separate home from work. The individuals working together often feel a greater intimacy and passion for the business. P3 also highlights that in a family business, spending is more closely monitored, and there is a significant emphasis on generating revenue to fund expenditures. In contrast, in other workplaces where the participant has worked, he did not feel this pressure as keenly. Interestingly, **P4** said that family ties don't necessarily have to be an obstacle in scalable businesses, especially if the main objective is to scale up and everyone agrees on that strategy. He further pointed out that:

> **P4:** *"I think a family is just one type of unit; similarly, a unit can be formed by a group of friends from the university. What matters is how these units interact, the dynamics, and their overall performance, not whether the unit was formed because there is a family or because the people met at the university. I would always look more closely at whether the individuals are healthy, hardworking, and whether the dynamics between them are positive, thus boosting each other rather than depleting each other's energy. It can be challenging in families, and it can also be exceedingly difficult in other types of units."*

Participants were asked in what ways they think scaling up is different for family businesses compared to non-family businesses, in this context the data reveals:

> **P2:** *"I think it might be trickier for a family business. Because if you really want to scale and grow quickly, then you have to think like the VCs; you have to adopt the mindset of VC funds and focus on scaling. This might require setting aside family*

sentiments. For instance, if there's a family heritage of owning a company, you might not want to give up control due to heritage, which could be a hindering factor. Personally, I don't have those sentiments. I just want to make a difference and help companies become more successful. I believe we have the product for that."

Based on the responses from the participants so far, it's clear that their focus isn't on building a traditional legacy family business. They operate more like typical startups, driven by goals of rapid growth and adaptability, even though they are closely knit due to family ties. This approach indicates that while they value their family relationships, their business strategies are more aligned with conventional startups, aiming for efficiency and expansion rather than maintaining family control for generations. One participant goes as far to state:

> **P1:** *"For us, our company doesn't really have the characteristics of a typical family company compared to others. On our side, because we are closer to being a non-family business, we know we want investors, and it isn't even a discussion."*

While participants consistently emphasized that their business does not operate like a typical family firm, subtle nuances suggest that family ties still significantly impact decision-making. **P2**, for instance, outwardly displays a sensible strategy for ownership and control, focusing primarily on the business's success and profitability over the next five years. However, there's an underlying tension as **P2** also contemplates the potential for family succession:

> *"Me personally, I don't care. I don't have to have controlling votes in the future. As long as the business is successful and making money. However, the context for other family members might be different. For me personally, I just want to build this up; I want to create a very successful global business that I'm proud of. But if other family members are indeed interested in continuing to run it, then I would consider that more than me walking away."*

This consideration indicates that, despite a preference for a traditional business structure, the possibility of passing on leadership to family members remains a factor that could influence future decisions. These mixed feelings are further reflected in the financing choices favored by the participants as the quotes in the last sub-chapter highlighted. The preference for angel investments over venture capital could be seen as a more cautious approach, potentially

driven by a desire to maintain greater control and alignment with family-oriented values. These choices suggest that while the business aims to operate like a typical startup, the nature of its family ownership indirectly influences it towards decisions to protect family influence, even if not openly acknowledged. In reality, the conflicts and choices within the business reveal a complex interplay of traditional startup ambitions influenced by family considerations, highlighting a conflict often overlooked by the participants themselves.

5.3 - Future Vision and Strategic Planning.

Moving forward, after participants provided insights on scaling up and its interplay with family business dynamics, we now turn to their perspectives on the company's future. This includes their vision for the next growth stages, key challenges in scaling, the potential use of mergers and acquisitions (M&A), the impact of Industry 4.0 and technological advancements, and whether they have an exit strategy planned. This exploration will shed light on how they plan to navigate these areas moving forward.

5.3.1 - Barriers to Scale Up.

When participants were asked to shed light on the main barriers they could face when scaling up, their answers varied. **P1** mentions *"Obviously, money is one barrier, but I actually think it's two things: money and time. If we can't maintain focus on scaling in an appropriate way, that will be our biggest barrier."*

P3 mentioned that scaling up won't happen if investment isn't secured. P3 highlighted the importance of maintaining the health and well-being of key individuals within the company. Burnout or health issues among key personnel can disrupt operations, decrease productivity, and hinder progress towards scaling up. Lastly, P3 mentioned that an important factor that could truly be a barrier is the people involved the business. This indicates that hiring the "wrong" employees or partners can be costly, as the business heavily relies on partnerships to sell the product globally.

P2 provided more details, explaining that the executive team within the company is the primary obstacle to progress. This implies that the success or failure of the company's initiatives heavily depends on the leadership team. The company will struggle to achieve significant advancements if the executives are not unified in their commitment and readiness to drive change.

5.3.2 - Mergers and Acquisition, and Exit Strategy.

When participants were asked if one way to grow internationally was through mergers and acquisitions, their opinions were divided. P1, P2, and P3 believed that it could be a smart way to gain a foothold in the market, especially in reaching different cultural groups where it can be challenging for a new foreign player. **P1** mentioned that it is possible to *"acquire a company that might be stagnating in the market research industry but still has a lot of clients and connections."* Although they consider M&A as a long-term objective, the focus now is on scaling up operations in a more affordable way. **P2** also mentioned that they lack the necessary skills in-house for M&A and would need to hire executives with more expertise in that field. **P4**, however, was not convinced that exploring this option would be a wise decision:

> *"I understand it this way, although it might sound strange, but in my opinion, Brandr Index just has all the value in the product that others lack. So, I have a hard time seeing Brandr Index accelerating faster growth by acquiring another company. However, I can easily imagine that many companies would be interested in buying Brandr Index to speed up their own processes."*

In this context, the data reveals an interesting point, one potential future scenario for the company could be acquisition by another company. This possibility violates the traditional approach of family businesses, which typically strive to retain control and a majority share of ownership. This discussion leads to an even more intriguing question: whether the managers of Brandr Index are considering an exit strategy for the long term. The participants shared varying perspectives on the future and exit strategies of their company. While there is a general acknowledgment of the need for an exit strategy, the specifics and timing differ among the participants.

P1 hinted at the possibility of an exit strategy being discussed as a long-term option. The idea of sizing up the company for a potential sale was mentioned, although it was not explicitly stated as the sole objective. This suggests that while an exit is considered a viable opportunity, it may not be the central focus at the moment.

P2 was more definitive about the certainty of an exit strategy, noting that it would become necessary at some point. He expressed a personal inclination to consider exiting in

about 7 to 10 years, emphasizing that operating indefinitely without an exit plan could limit the company's growth. He clarified that exiting might not involve selling all the shares but indicated that a significant portion, perhaps 80% or 90%, could be offloaded to facilitate this transition.

In contrast, **P3** focused more on the immediate future, specifically the next three to five years, during which the company aims to scale. P3 indicated that there hasn't been much consideration or discussion about plans beyond this timeframe, suggesting a more short-term focus compared to the other participants.

The diversity in exit strategy perspectives among the participants reflects both short-term and long-term thinking, revealing a varied approach to the company's future. This range of views sets the stage for considering even more expansive possibilities. **P4** articulates such a scenario:

> *"You could imagine a scenario where a major company, like Google, wants to buy a company with a tool as powerful as Brandr Index. Even if the family sells, there is satisfaction in knowing 'We saw this as the solution to this problem' and thinking 'We laid the foundation for this.' This realization makes it easier to step away satisfied with the outcome… It's, although, important to remember that you can choose to keep the business within the family, simply enjoy the journey, and maintain control—there's no rule that says you must conquer the world. However, if that path is chosen, you have to be aware that you might not stay in the business for decades, as someone else will likely take the opportunity to dominate the market with such a valuable tool."*

The quotes are pivotal because the future of Brandr Index isn't solely determined by its status as a family business, but rather on the fundamental aspects of the product, its industry, and market. Unlike typical family businesses such as wholesalers or manufacturers, the success of Brandr Index relies on its ability to secure necessary funding, scale effectively, and establish a strong market presence. To achieve this, the company must adopt strategies typical of traditional startups, including selling equity shares. This approach changes the family's traditional views on their control and involvement in the company. Without funding, Brandr Index risks underachieving its potential and quickly falling behind its competitors. There are notable internal dynamics within the company affected by its nature as a family business; however, this doesn't change the fact that the company's success ultimately depends on its

ability to secure funding and effectively scale up.

5.3.3 - Industry 4.0 and Technological Advancements.

When participants were prompted to discuss the impact of Industry 4.0 and technological advancements on their business strategies, their insights revealed both enthusiasm and caution. The influence of these advancements is a critical factor for all businesses, especially those in the scaling phase. Participants highlighted how these changes are reshaping their strategies and operational models, emphasizing the necessity to continuously adapt and innovate to stay competitive in a evolving landscape.

> **P2:** *"The AI available potentially for our platform significantly impacts our business model by generating meaningful insights from both primary and secondary data. While this presents many opportunities, there are also threats, such as our traditional methods becoming outdated—though I don't see this happening in the next five years. It's crucial to stay engaged with people, as the methods can vary. We must be mindful, as these advancements will inevitably bring changes."*

P1 focused on AI, and the broader technological trends. The improvements in IT and technology infrastructure have generally led to more affordable and accessible solutions. Technologies that were once costly and required extensive resources can now be managed by fewer individuals, enhancing efficiency.

> **P3** added: *"Technological advancements can be beneficial for us but also pose risks; we have to stay cautios. That's why it's important not to progress too slowly, and another reason why we need funding. With intense competition, if someone recognizes your value, they might try to imitate or surpass you. Initially, I believed that collecting data was crucial, and we had to protect it carefully. However, as technology advances data has become more accessible to others. Therefore, our focus on technology, specifically on how we deliver the results in our app is critical."*

These quotes become more insightful when we understand the broader context, which is the impact of Industry 4.0 and technological advancements across various sectors. As businesses increasingly rely on digital technologies to drive growth and innovation, they face a dual

challenge: leveraging these technologies to gain a competitive edge while managing the risks associated with rapid change and increased competition. This context underscores the need for strategic agility and technological adeptness, enabling companies like Brandr Index to not only adapt to but also shape the evolving market dynamics. Thus, the perspectives shared by the participants highlight both the opportunities and the important cautious navigation in the face of these transformative trends.

5.4 - Analysis of Hypothesis.

In the following chapter the hypothesis created will be answered based on the participants responses.

Hypothesis 1: Family firms are more reluctant to scale up due to their desire to retain majority ownership and control of the company.

The participants provided varied insights into their attitudes toward retaining control and how it affects their willingness to scale up. **P1** explains the balancing act: *"I'm not so sure that our founder thinks it's so important to keep it in the family necessarily. I think it's more about retaining control in a way that ensures we maintain the same vision and trajectory."* This reflects a slightly different approach, where control is less about family and more about preserving the business's core strategic direction. Conversely, **P2** directly addresses the emotional dimension: *"For me personally, I just want to build this up; I want to create a very successful global business that I'm proud of.*"

P4 adds a perspective on operational transformation necessary for scaling, *"For scaling up to occur, transformation is necessary; we need to work on the strength of what we have, standardize it, and say, 'listen, we need the founder to remain the face of the brand, to back it up, but we also need more hands on deck, who don't need to be globally known for branding to sell the product.'"* This indicates an openness to adapt the company's structure for growth, while maintaining its founding principles.

P3's comment highlights the traditional view more typical of family firms: *"I think it's important for the company that the majority of the family is in charge, I think there will be more passion and that the 'founder' remains visible."* This underscores a preference for keeping leadership within the family, illustrating the emotional ties and commitment to family involvement that can complicate decisions about scaling up.

These perspectives demonstrate that while family firms may exhibit caution about scaling up due to concerns over control loss, their decisions are influenced by a blend of strategic, operational, and emotional factors. This blend of perspectives indicates that family firms value control but are willing to adapt if it benefits their strategic objectives.

Hypothesis 2: Firms, whether family-owned or not, planning to grow through scaling-up strategies, do not mind selling the majority share, given that the scaling-up strategy has a high percentage of success.

As mentioned above, the participants were not opposed to taking in capital to scale up their business. Whether it suits a family business to generate funding depends greatly on the industry and specific business context in which the company operates. Typical family businesses operate in sectors where expansion involves steady growth and financing options that protect their majority shares and control. Meanwhile, companies in the intellectual industry, such as Brandr Index, are fundamentally focused on rapidly scaling their business, securing a dominant position in the market, and planning for a strategic exit. Given these goals, priorities such as rapid growth and market leadership often take priority over maintaining family control and sustaining legacy. Consequently, these companies may place greater emphasis on securing substantial funding and forming strategic partnerships that support their aggressive growth plans, rather than protecting traditional family governance structures.

P1, was asked about the scenario if an acceptable offer came in for the majority of shares, what the management team would do:

> *"Ultimately, the decision to sell (the majority of shares) depends largely on the financial offer. While generally, we might lean towards not selling, a substantial bid could change our stance. There are cases where the buyer does not intend to change management or direction, other factors, such as continued roles for existing management and additional incentives, come into play. So, while not impossible, realistically, it's unlikely unless the conditions are exceptionally favorable."*

P1 felt it unlikely that majority shares would be sold in the near future but did not rule it out, depending on receiving a high bid. **P2** was more open to the idea: *"Personally, I don't care. I don't need to have controlling votes in the next five years as long as the business is successful and making money."* **P3** was the most opposed to it and didn't see selling the majority shares

as a viable option in the near future, feeling it was important that the current management team retain the controlling votes to shape the company's scaling direction. **P4** echoed similar sentiments:

> *"Right now, at this point in the company's lifecycle, what truly matters is the people at its core. It's difficult to envision a scenario with a majority owner overseeing the projects currently being executed. The existing owners need to retain control a bit longer to ensure that the product, technology, and sales channels are fully standardized."*

In response to Hypothesis 2, the willingness of firms to sell majority shares depends on several factors including the amount of financing offered, the development stage of the product, and sales cycles, among others. Responses from participants vary, showing that while some are open to selling shares now if the conditions are favorable, others are influenced by family dynamics and the desire to maintain control. P2 is the exception, demonstrating openness to give up control for business success. Conversely, others like P3 and P4 prefer to keep control within the family for now but are open to selling once the concept is proven and the business has achieved some growth. No participant was convinced that the family should hold the majority shares indefinitely. They all agreed that there will come a time, within 7 to 15 years, when they will exit, depending on how the scaling-up process progresses.

Hypothesis 3: Family firms are more likely to adopt scaling-up strategies if funding comes from an angel investor, as opposed to venture capital or similar funding sources.
When participants were asked to rank different financing options, angel investment consistently emerged as a top choice, often ranked first. Opinions on venture capital (VC) firms varied, with a harmony that it wasn't the right time in the company's lifecycle to seek VC funding. Instead, it was seen as a more viable option for later stages, such as during Series A or B funding rounds, when the company has grown and requires more structured operations. **P1** elaborated:

> *"Typically, companies only seek funding when they're looking to grow or scale, which usually involves different rounds, like seed, Series A, or Series B. Venture capitalists might be a more suitable in later stages because many aspects of our business would*

need to be streamlined and clarified. The team would need to grow, and we'd need more experienced personnel in running a large-scale business… Dealing with VCs is quite different; they're in higher demand and their money is less patient."

Participants clearly favored angel investments or similar funding due to their less intrusive nature, offering not just capital but also knowledge and expertise without heavily influencing daily operations. This preference is strategic, aiming to balance external financing with maintaining control over the company's direction. **P1** and **P4** particularly appreciated investors who support without disrupting the company's culture. Considering funding from individuals or firms that interfere more with day-to-day operations doesn't suit the family in charge which could stem from the fact that they want to keep the control and do things as they have been done so far. Introducing such investors might lead to potential management changes, risking disputes within the family. Although, they are aware that down the line that type of investment is needed for rapid growth.

Hypothesis 4: Scaling-up strategies take a longer time in family firms due to their approach to financing.

The hypothesis that scaling-up strategies take a longer time in family firms due to their financing approaches is supported by insights from the participants. Family firms often exhibit a cautious approach to growing which is influenced by their preferred financing methods. This cautious approach is evident in the participants' responses, which highlight a preference for certain types of investments and the conditions under which they would accept funding.

P1's comments shed light on this cautious approach: *"The probability of it working out without funding is substantially less...if we received sufficient funding, the probability of success might be around 20%. If we were bootstrapping, maybe it's only like 5%."* This statement illustrates the impact of financing on scaling efforts and the cautious stance family firms often take, opting to bootstrap longer than non-family firms might. **P2** expressed readiness for scaling but with strategic financial partnerships that allows scaling on their own term:

"It has taken some time but now we have a ready-made product that's proven successful in one market and is gaining traction in others. We are developing a platform that will significantly boost sales and engagement. We are now ready for

scaling. Our best move forward is to partner with a very wealthy individual or company who understands our current stage and can support us on our own terms. Once we've scaled, we'll be more prepared for venture capital."

The significance of this quote lies in its ability to highlight that Brandr Index has spent years proving its concept on its own terms by bootstrapping. As **P3** highlights *"It's amazing to think how this has been done without getting any big funding."* They have not sold away significant amounts of shares that would put time pressure on them. They still see their best strategic fit as receiving patient capital and additional knowledge from an individual or a company that trusts them. They are not interested in receiving investments from VCs yet, that typically expect to recuperate their money within a few years. This preference for angel investors over more aggressive venture capital illustrates a strategic choice to maintain control and minimize external pressures, which can slow the scaling process.

5.4 - Summary.

The Results chapter has outlined the varied perspectives of key figures within a family business on the challenges of scaling up. These insights reveal a complex view shaped by the unique dynamics of family businesses, particularly in sectors driven by intellectual property and rapid technological advancements. Participants discussed their attitudes toward financing and control, illustrating a preference to maintain control while being open to external funding that supports their strategic goals.

The analysis of various hypotheses indicated a preference for angel investors and strategic partnerships over traditional venture capital, highlighting a cautious approach designed to balance growth with the preservation of family influence.

As we move into the Discussion chapter, we will further answer the research question: *How internal and external relational dynamics influence the scaling-up strategies of small and medium-sized family businesses in the digital era.* This next section will integrate the insights from the results chapter with literature review to provide a detailed analysis of the impact of family structures on business strategies. The discussion will also assess the implications of these strategies for the future of family businesses, exploring their potential for adaptability and transformation in response to external pressures and technological advancements.

6. Discussion

The case study encounters both the typical challenges associated with scaling, as noted by Carucci (2016), specifically the need to increase revenue faster than costs, and challenges unique to family businesses, particularly those related to socioemotional wealth (SEW) (Gomez-Mejia et al., 2011). Previous studies, as Bohan et al. (2024) outline that the concept of scaling remains relatively new in academic literature and is often inconsistently defined, leading to a limited understanding of its distinction from traditional business growth. This study aims to clarify the concept of scaling and explain how it relates to family businesses.

The participants were all aware of the difference between scaling and growing, although they did not all describe the term "scaling" in the same way. However, they all knew that traditional growth is slower than scaling and associated scaling with the need for investments. As Picken (2017) emphasizes, during the scaling phase, adding resources, streamlining processes, and forming partnerships are crucial to growing the business. Furthermore, scale-ups need consistent profitability to secure investor returns and market leadership. A successful exit strategy, whether through an IPO, private sale, merger, or acquisition, is necessary to maximize the scale-ups value for entrepreneurs and investors (Picken, 2017).

Family businesses, as described in the literature, typically do not possess scalable products. These businesses are often linked to industries such as manufacturing, retail, agriculture, construction, and real estate. Fundamentally, family businesses operate differently from startups in the digital era, like the one studied in this thesis. Digital startups often focus on intellectual products and pursue rapid growth through scaling strategies. Unlike these startups that aim for exponential growth and market dominance, family businesses prefer conservative growth strategies that preserve quality and uphold the family legacy (Gomez-Mejia et al., 2011).

Previous studies have highlighted that scale-ups operate in sectors driven by intellectual property, where the potential for rapid expansion is significantly higher. These industries include technology, digital platforms, and other knowledge-based sectors (Piaskowska et al., 2021). Scale-ups typically engage in activities such as innovation, digitization, and strategic acquisitions to facilitate their rapid growth (Bohan et al., 2024). These businesses leverage technological advancements to scale operations efficiently and effectively (Lange et al., 2023). Participants in this study believe strongly in their product and its potential in the global market. Currently, they are bootstrapping but have proven their concept in one market and attempted organic growth in other markets with moderate success. They emphasized the need for funding

to grow rapidly, form strategic partnerships and alliances, hire experienced personnel, build a salesforce, and implement efficient marketing strategies. Participants revealed that technological advancements, especially artificial intelligence, will play a critical role in the development of their market. They mentioned that AI will be highly beneficial, allowing them to reduce costs and resources while enhancing efficiency. However, they also cautioned that AI could disrupt their market, making it crucial to scale up operations quickly to stay competitive.

The case study examines a first-generation family business where power remains with the founding family. Participants noted that the family does not prioritize early succession planning, emphasizing that it is less relevant to them compared to traditional family businesses, as highlighted by Sharma et al. (2001). P4 argued that in this industry, it should not matter whether a company is family-run or not. Companies often consist of units formed from university friends, ex-colleagues, or family members. If the goal of these units is to successfully scale the business, ownership should not be an issue.

This perspective on succession, arises because they operate in an industry where significant capital investment is required for success. They believe the company’s immediate focus should be on scaling up, as securing financing and expanding operations will inevitably lead to decreased ownership over time. If the focus were on organic growth, the results would likely be slower progress and potential failure. As P4 mentioned, this approach risks allowing competitors to enter the market with a similar product and dominate the sector.

Furthermore, while succession planning is crucial for maintaining clear communication and aligned strategies, the family business must be aware of potential conflicts. As future generations become involved and if the family retains majority shares, differing opinions on the company's direction may arise (Sharma et al., 2001). Open communication and aligned strategies are essential to manage these conflicts effectively.

The literature suggests that family businesses often avoid external financing to maintain ownership and control, instead prioritizing debt funding (Gallo and Vilaseca, 1996). However, participants in this study felt that debt financing was the worst option for their funding needs, emphasizing what Meglio et al. (2017) discussed about equity being preferred over debt due to high uncertainty levels. Participants are willing to dilute ownership in exchange for the necessary funding to scale up, indicating a strategic shift towards prioritizing business growth over traditional family governance structures.

Regarding control, participants emphasized the necessity of maintaining control during the transition from a startup to the next phase. When discussing the long-term future and

potential exit strategy of the company, they acknowledged that an exit, typical for regular startups, should be a possibility. P4 mentioned that the company could be a valuable acquisition for larger firms and P2 expressed a desire to see the company thrive and become profitable, regardless of whether control remains within the family. As a company scales up, the founder's role often evolves, with reduced involvement in day-to-day operations as ownership becomes more diluted. This transition is consistent with the literature on entrepreneurial life cycles, which indicates that founders initially play a central role but gradually step back as the company grows and external investors become involved (Zook and Allen, 2016)

Regarding funding, participants emphasized the need for additional knowledge and expertise that come with external investments. This aligns with theories suggesting that external investors bring not only capital but also strategic guidance and industry knowledge (Picken, 2017). Angel investment was preferred by all participants, as it offers both financial resources and valuable mentorship, which is crucial for early-stage startups aiming to scale (Kerr et al., 2010). Although not explicitly stated, participants seek patient capital from individuals who believe in the team and the project and can provide additional knowledge without being overly involved in day-to-day operations.

The second option was VC funding, but it was prioritized for later stages, such as Series A or B rounds. Participants expressed a cautious stance towards immediate VC funding due to the potential for short-term pressures and uncertainty (Wright and Robbie, 1998). Participants indicated that while VC funding might be necessary in later stages for substantial scaling efforts, the initial preference is to establish a solid foundation with angel investors who provide both capital and strategic advice.

Final Thoughts

The findings of this research showed that both internal and external dynamics influence the scaling-up strategies of the family company analyzed. Internally, the family business's need for funding to fuel rapid growth is evident. However, there is a limited prioritization of factors related to socioemotional wealth (SEW), which are typically more emphasized in traditional family firms. SEW considerations, while present, tend to slow down decision-making processes and reduce the business's willingness to take great risks. This results in a growth rate that is slower than that of a typical rapidly scaling startup but faster than that of a family firm that focuses solely on SEW. The case study thus demonstrates a balance between the rapid growth aspirations of typical startups and the conservative, quality-preserving approach of family firms that prioritize SEW. This balanced approach allows the family business to benefit from both strategies, although it also means experiencing some limitations from each side.

Externally, the success of future scaling-up strategies for family businesses depends on various factors, including the industry in which they operate, the types of products or services they sell, the company's age, and the level of family involvement in management. Family-owned tech startups, similar to traditional startups, can expand quickly due to their inherently scalable products or services.

Moreover, one might argue that a new pattern of family businesses is emerging in the digital era. These businesses leverage their strengths and interconnectedness to form startups, secure the necessary funding, achieve rapid growth, and eventually exit with profits. Unlike traditional family businesses, they adopt long-term visions similar to those of typical startups, focusing on building scalable companies and strategically planning for exits at specific points in their lifecycle.

However, scaling activities in a family business can bring unique challenges, such as issues related to power dynamics, reliability, and communication. These challenges are also common in non-family firms but can be more complicated by family relationships. On the positive side, stronger family bonds can act as a driving force, providing a unique advantage. With more at stake personally and professionally, family members may be more motivated to succeed if they collaborate effectively as a team.

Limitations

This thesis, while providing valuable insights into the scaling-up strategy of a family business, acknowledges certain limitations that could impact the generalizability and depth of the findings. The research was based on a single case study, involving a limited number of interviews. Although this approach allowed for an in-depth analysis, it restricts the breadth of data and may not capture the full spectrum of experiences and strategies employed by family businesses in different contexts or industries. A more extensive investigation involving multiple case studies would provide a richer, more comprehensive understanding of the diverse strategies and challenges faced by family businesses during scaling-up efforts. This limitation also opens avenues for future research, where scholars can explore additional case studies to confirm, challenge, or expand upon the findings presented in this thesis.

Additionally, the researcher's connection to the case study could introduce potential biases in data collection and analysis. Despite efforts to maintain objectivity and impartiality, personal connections might still influence the study. The researcher approached the study rigorously, treating the case study and its participants with the same level of scrutiny and unbiased consideration as would be applied to any other research scenario. This adherence to strict research standards aimed to mitigate any influence that personal connections could have had on the study's outcomes.

These limitations underscore the need for cautious interpretation of the findings. However, they also highlight the potential for future research to build on the initial insights provided, thereby expanding the understanding of scaling-up processes within the family business context.

Future research

The findings of this study open several pathways for further research, which could enhance understanding of scaling strategies within family businesses and address the limitations noted in the current work. Here are four recommended areas for future research:

Future research should consider analyzing multiple case studies to deepen the understanding of scaling-up processes in family businesses. By comparing different family businesses in various industries or regions, researchers can identify patterns, contextual variables, and unique strategies that influence the scaling-up process. This would enable a more nuanced understanding of how family dynamics interact with business growth strategies across diverse contexts.

Another valuable area of research would be to interview consultants who specialize in family businesses. These professionals often have insights into the specific challenges and barriers that family firms face during growth and scaling efforts. By gathering data from these experts, future studies could provide a more detailed exploration of effective strategies and common pitfalls in scaling family businesses, offering a broader perspective that complements the views of family members and internal stakeholders.

As digital technologies continue to reshape industries, a worthwhile area of research would be to examine how digital transformation influences scaling strategies in family businesses. This study could focus on the adoption of digital tools, platforms, and practices, and how they facilitate or hinder the scaling process. It could also explore whether family firms are slower or quicker to adopt new technologies compared to their non-family counterparts and how this impacts their growth trajectories.

By exploring these areas, future research can provide deeper insights into the complex dynamics of family businesses and offer practical guidance for those aiming to scale sustainably and successfully in the evolving business landscape.

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Appendix.

List of Questions.

1. How do you define the term scaling up in the context of your business?
2. Could you please describe your preferred scale up or growth journey?
3. Have you sought external funding to facilitate scaling up? What was your experience?
4. What are the main growth objectives with regards to Brandr Index, in the next 5-10 years?
5. What are the most significant barriers you see for Brandr Index to scale up?
6. If you received an offer to sell the majority of your company's shares for a substantial sum, would you consider it?
7. How do you define the term family business and how do you think it's different from non-family business?
8. What do you perceive as the primary challenge in scaling up a family-owned business?
9. Could you share your experiences with organic growth activities, such as partnerships or alliances? How have these efforts worked for your company?
10. How crucial is it to you that the family retains control of the company when considering new capital investments and the start of scaling-up activities?
11. Does the possibility of losing control over the company due to financial decisions affect the company’s willingness to scale up?
12. What role do future generations of the family in charge play in planning for the business's growth and scaling up?
13. In what ways do you think scaling up is different for family businesses compared to non-family businesses?
14. Can you provide examples of how other family businesses you know have successfully scaled up?
15. Looking forward, what strategies are you considering overcoming barriers to scaling up?
16. Are there any changes or innovations within the industry that you see as opportunities for your business to scale up?
17. How do digital transformation and technological advancements impact your scaling-up strategies?

18. If you had to pick three and rank from 1 to 3 of the following financing options, what would you prefer for Brandr Index? The options are venture capital investment, general investment, angel investor, joint ventures, crowdfunding, debt financing through banks etc, or something else (please specify).
19. Do you view the company as an exit strategy, or do you wish that control remains with the current owners or family?
20. Are you considering using mergers and acquisitions as a growth strategy in near future?
21. Can you point me in the direction of someone who could provide me with more information about this?