

**CO-CREATION OF VALUE, CUSTOMER ENGAGEMENT AND SUSTAINABLE  
COMPETITIVE ADVANTAGE: a study in Traditional Restaurants**

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## 1. INTRODUCTION

In an increasingly dynamic and competitive business environment (Lopes, Lopes, Coleta, & Rodrigues, 2017), innovation has become a fundamental factor for the success and survival of companies. Several authors argue that innovation plays a crucial role in the development of new business models, the commercialization of new ideas and technologies, and new forms of value generation (Chesbrough, 2010; Spindler & Zen, 2021; Teece, 1986). The literature also highlights the importance of innovation as a source of sustainable competitive advantage for organizations (Barney, 1991), capable of generating value for customers and driving business growth and performance (Chesbrough, 2003; Porter, 1990).

In the service sector, the gastronomy industry stands out among Brazilian enterprises as it has been keeping pace with the national economy's development (Arbache & Teles, 2006). However, despite being a significant and expanding sector, according to the Brazilian Association of Bars and Restaurants, the mortality rate is high, with around 35% of restaurants closing within two years of opening (Cunha, 2020). In this context, innovation management can play a crucial role in differentiation, customer acquisition, and business longevity.

Restaurants are often categorized by consumers as either "traditional" or "modern" (Alonso & O'Neill, 2010; Kim, Song, & Youn, 2020; Lee, Pung, & Chiappa, 2022). This categorization has been methodologically adopted for research purposes (e.g., Abidin, Ishak, Imsail, & Juhari, 2020; Alonso & O'Neill, 2010; Nam & Lee, 2011). Therefore, it is important to recognize that modern and traditional restaurants have distinct characteristics in terms of management, product offerings, physical environment, atmosphere, customer experience, and brand marketing strategies (Lee *et al.*, 2022).

While modern restaurants constantly seek to experiment with new dishes, new cooking techniques, creative presentations, and visually appealing environments, going beyond conventional culinary skills (Abidin *et al.*, 2020; Alonso & O'Neill, 2010), traditional restaurants stand out by serving local foods and beverages that represent the gastronomic character of a region, preserving recipes and established practices over time (Kim *et al.*, 2020; Skuras & Vakrou, 2002). Despite advances in studies on traditional and modern restaurants, research often adopts a consumer-centric perspective to examine these categorizations *ex post* (e.g., Abidin *et al.*, 2020; Alonso & O'Neill, 2010; Kim *et al.*, 2020). Therefore, there is a need for in-depth analyses from a managerial perspective on innovation in traditional and modern restaurants (Lee *et al.*, 2022).

Among the strategies employed by restaurants, customer engagement management and customer co-creation have assumed significant prominence. Customer co-creation involves interaction processes between companies and customers for value creation and extraction (Prahalad & Ramaswamy, 2004). Customer engagement is an approach that creates, builds, and enhances the cognitive, physical, and emotional presence of a customer in a company (Brodie, Ilic, Juric, & Hollebeek, 2013; Patterson, Yu, & Ruyter, 2006). Customer engagement goes beyond traditional measures of satisfaction, encompassing aspects such as commitment, loyalty, involvement, and trust (Bowden, 2009), becoming an increasingly utilized strategy by organizations to expand customer participation and engagement with their brands (Hollebeek, 2011). Although they have differences, customer co-creation and customer engagement can be used complementarily as strategies for generating sustainable competitive advantage, especially in traditional restaurants, whose success may stem from emotional and

meaningful connections with their customers, offering unique and personalized experiences (So, King, & Sparks, 2012).

While there are relevant studies on innovation, value co-creation, and customer engagement in the context of hospitality and tourism (e.g., Ahn & Back, 2018; Tu, Neuhofer, & Viglia, 2018), there is a gap in the literature regarding their applicability in traditional restaurants, especially when analyzing restaurants from a managerial perspective (Lee *et al.*, 2022; Yen, 2020). Given this context, the objective of this study was **to explore the management of customer co-creation and customer engagement as sources of sustainable competitive advantage in traditional restaurants.**

This paper represents a contribution to the literature on entrepreneurship and innovation, with a focus on the tourism and hospitality sector. The study provides an in-depth analysis of creative ways to leverage multiple customer relationships to boost the business's innovation capacity, reinforce its identity, and create affective memory. The active management of these processes can be an important source for maximizing value extraction and prolonging business survival.

This article is structured into four sections: firstly, the theoretical approaches that underpin the research are presented (Section 2); then, the methodological framework guiding the research and sample characterization is described (Section 3); next, the research findings are discussed and analyzed (Section 4); and finally, concluding remarks and suggestions for future research are provided (Section 5).

## 2. LITERATURE REVIEW

In this topic, the main concepts and theoretical discussions that support this study are presented.

### 2.1 Innovation in the Food Service Sector

Within the context of innovation in business, one sector that has been gaining attention is hospitality and tourism (Gomezelj, 2016; Lee, Hallak, & Sardeshmukh, 2019; Sarooghi, Libaers, & Burkemper, 2015), supported by several research studies on innovation in restaurants (e.g., Cavusoglu, 2019; Cho, Bonn, & Han, 2020; Lee, Hallak, & Sardeshmukh, 2016a; 2016b). Significant factors in consumers' restaurant choice include the quality and type of food, brand image, atmosphere, and restaurant style (Lee *et al.*, 2022). These elements influence the customer's decision to patronize one restaurant over another (Alonso & O'Neill, 2010).

Nevertheless, in this sector, innovation can be challenging due to the tension between tradition and the pursuit of novelty. The general argument is that tradition and innovation are antonyms: restaurants are either traditional and non-innovative or modern and innovative (Jordana, 2000; Kühne, Vanhonacker, Gellnyck, & Verbeke, 2010). However, this argument has been contested, suggesting that "restaurants can be positioned on a continuum, where the purest extremes are traditional and modern restaurants, while different types of hybridism exist between them" (Lee *et al.*, 2022, p. 8). The most traditional restaurants aim to preserve authenticity and cultural heritage by maintaining recipes and practices that have stood the test of time (Kim *et al.*, 2020; Skuras & Vakrou, 2002). On the other hand, modern restaurants constantly seek to innovate, experiment with new flavors, preparation techniques, creative presentations, unique gastronomic experiences, and visually appealing environments (Abidin *et al.*, 2020; Alonso & O'Neill, 2010). This dichotomy between innovation and tradition poses a challenge for restaurants as they need to find a balance between offering novelties and

preserving the cultural and gustatory basis that attract customers and create an identity for the establishment.

In this regard, to generate sustainable competitive advantage (Barney, 1991), it is essential to understand the characteristics and challenges of the sector and find the ideal position on the continuum between innovation and tradition. Innovation can occur in various moments, attributes, assets, and functions of companies (Drucker, 2007). For example, innovation can be applied to the product or service offered by the company, production operations and processes, business models, organizational aspects (Schumpeter, 1942), marketing activities, customer co-creation (Prahalad & Ramaswamy, 2004; Schumpeter, 1942), relational capabilities of the company (Dyer & Singh, 1998), and technological components related to digital transformation (Heavin & Power, 2018; Matt, Hess, & Benlian, 2015). Given the specificity of the restaurant industry, innovation tends to be more subtle and incremental; thus, we will adopt the definition of innovation as improvements and enhancements that can occur in any area of the business, not only in products, services, and processes, but also in leadership, human resource management, communication, organization, marketing, and any other activities that provide some kind of benefit to companies (Csath, 2012). Specifically in restaurants, innovation can be more visible in menu changes (product), operational processes, interior design, preparation and presentation of dishes, table service and cleanliness, technology adoption, and supplier relationships, among others.

On the other hand, tradition can be reinforced in quality management and customer relationship and communication. Several factors influence the customer's decision to choose one restaurant over another (Lee *et al.*, 2022). In this sense, it is important for restaurants, like other businesses, to develop and reinforce the attributes that confer their identity (Kunsch, 2003). By identifying with the business's identity through cognitive, affective, and emotional involvement, the customer can become more loyal (Yuksel, Yuksel, & Bilim, 2010). Thus, customer co-creation and customer engagement may help in that sense.

## **2.2 Customer Co-creation and Customer Engagement**

Value co-creation has been widely studied as a key concept in the field of innovation (e.g., Dell'era & Verganti, 2010; Frow, Nenonen, Payne, & Storbacka, 2015; Ngugi, Johnsen, & Erdélyi, 2010; Sjödin, Parida, Jovanovic, & Visnjic, 2020). Its definition encompasses the idea of collaboration between companies and consumers for the joint creation of value, resulting in mutual benefits (Vargo & Lusch, 2004). Among the seminal studies that underpin this approach, the work of Prahalad and Ramaswamy (2004) stands out, as they introduced the concept of "co-creation" as a process of interaction and interdependence between companies and customers in value creation. This approach has found diverse applications in different sectors, such as consumer products (Prahalad & Ramaswamy, 2004), financial services (Payne, Storbacka, & Frow, 2008), and tourism and hospitality (Chathoth, Ungson, Harrington, & Chan, 2016; Im & Qu, 2017; Kim, Tang, & Bosselman, 2019; Yen, Teng, & Tzeng, 2020). Value co-creation demonstrates significant potential for generating sustainable competitive advantage, as companies that actively involve their customers in co-creating products and services can achieve higher customer satisfaction, greater loyalty, and thus a differentiated position in the market (Prahalad & Ramaswamy, 2004; Sawhney, Verona, & Prandelli, 2005).

Frow *et al.* (2015) indicate that there are various dimensions and categories that can compose a co-creation design framework that companies can adopt as a tool to extract value from established relationships. For example, co-creation motives can include access to resources, creating customer commitment, enabling self-service, creating competitive offerings, decreasing cost, emergent strategy, and building brand awareness, among others. In

terms of form, co-creation can involve co-conception of ideas, co-design, co-production, co-promotion, co-experience, co-meaning creation, and so on. Regarding the actor, co-creation can occur with the focal firm, customer, supplier, partner, competitor, or influencer. As for the engagement platform, it can involve physical resources, spaces/events, joint processes, personal groups, and more. In terms of engagement level, it can be cognitive, emotional, or behavioral. Finally, in terms of duration, it can be one-off, recurring, or continuous. It is important to emphasize that although the literature presents possibilities for co-creation with various actors, this study focuses on relationships with customers, specifically on customer co-creation.

In the same vein, customer engagement also plays a crucial role in innovation and the pursuit of sustainable competitive advantage (Barney, 1991; Yen *et al.*, 2020). Customer engagement can be defined as the active, emotional, and cognitive involvement of customers with a brand or company (Hollebeek, Srivastava & Chen, 2014). Customer engagement, therefore, is a multifaceted concept that encompasses aspects of affection, cognition, and behavior (Hollebeek, 2011) that go beyond mere customer satisfaction (Blattberg, 2003). Promoting customer engagement can bring a range of benefits to firms (e.g., customer lifetime value, reference value, influencer value, and knowledge value) (Kumar, Aksoy, Donkers, Venkatesan, Wiesel, & Tillmanns, 2010). Moreover, its effective management can enhance customer loyalty and organizational performance (Pansari & Kumar, 2017; So *et al.*, 2016), reflecting on financial aspects, prestige, and reinforcement of the brand (Van Doorn *et al.*, 2010). Being close to the customer, through the creation of affective memories, can increase customer loyalty (Yuksel *et al.*, 2010). However, loyalty needs to be conceived as a causal chain composed of cognitive loyalty, affective loyalty, conative loyalty, and action loyalty (Oliver, 1997).

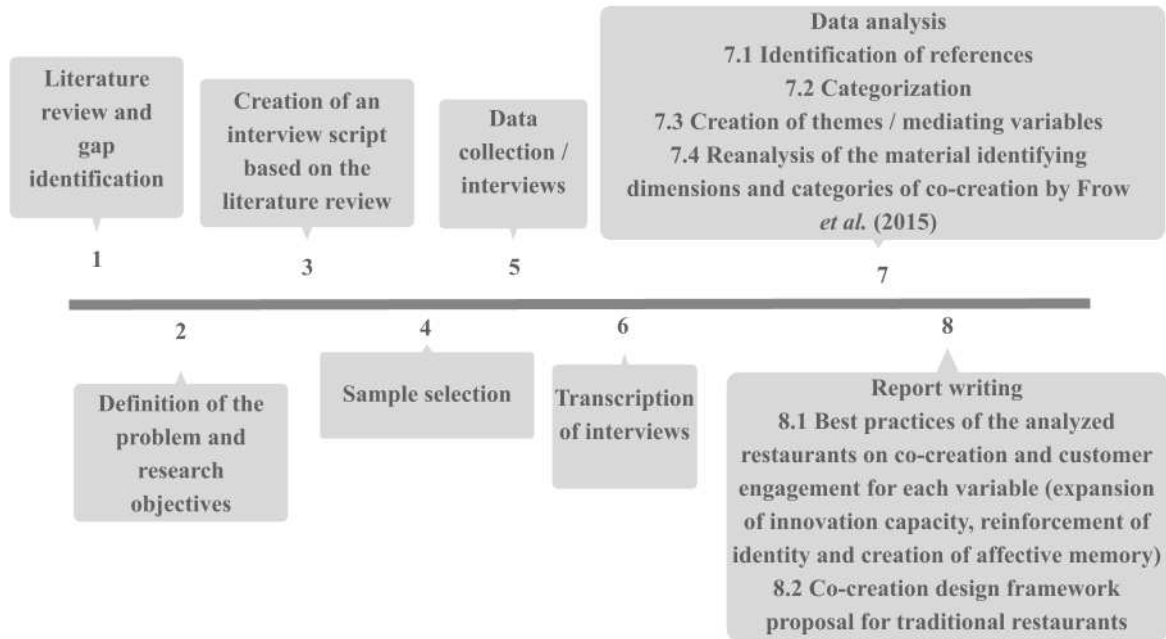
Although there are similarities and connections between the concepts of customer co-creation and customer engagement (Yen *et al.*, 2020), it is important to highlight their differences. While value co-creation focuses on collaboration between companies and customers in value creation and extraction (Prahalad & Ramaswamy, 2004), customer engagement centers on the emotional, affective, and cognitive connection of customers with the company (Hollebeek *et al.*, 2014; Kumar *et al.*, 2010). Both concepts are complementary and can be leveraged together to drive innovation and sustainable competitive advantage (Barney, 1991; Kumar & Pansari, 2016; Yen *et al.*, 2020). In this sense, it is argued that co-creation processes can enhance customer engagement with companies.

As seen, several authors point out that innovation, co-creation, and customer engagement can be sources of sustainable competitive advantage (Barney, 1991; Brodie *et al.*, 2013; Patterson *et al.*, 2006; Prahalad & Ramaswamy, 2004). However, there is a lack of research addressing innovation management in traditional restaurants (Lee *et al.*, 2022). The purpose of this study is to analyze and demonstrate in detail how customer co-creation and customer engagement can leverage innovation capability, create affective memories with customers, and reinforce the identity that confers the status of tradition to restaurants.

### **3. METHODOLOGICAL PROCEDURES**

This article presents a primary, cross-sectional, exploratory, and qualitative study (Godoy, 1995). Figure 1 illustrates the methodological approach followed in conducting the study.

Figure 1 - Methodological Approach



Source: Elaborated by the authors, 2023

To conduct the study, a preliminary literature review was conducted in the broad areas of innovation and tourism and hospitality. This review identified several gaps that served as the basis for defining the research problem and objectives.

For data collection, a semi-structured interview script was developed (Magaldi & Berler, 2020), also based on the literature review. Therefore, a deductive approach was adopted (Reses & Mendes, 2021), where data collection is guided by a set of theoretical assumptions (Braun & Clarke, 2006; Souza, 2019).

The interview script consisted of open-ended questions and was divided into three main parts. The first part aimed to understand current characteristics about the respondent and their business. The second part delved into specific areas and possible changes over time, such as marketing, relational attributes, operations and processes, digitalization and digital transformation, business models, and innovation processes and strategies, as well as the preservation of tradition. Finally, the third part specifically addressed the forms of relationship and co-creation implemented with customers. Questions were asked about how the company handles suggestions, feedback, customer demands, and how they incorporate them into their processes, products, and services.

With the interview script ready, a sample was selected to participate in the study. Traditional restaurants were sought to fit the concept of "traditional," following the definition by Kim, Song, & Youn (2020) and Skuras & Vakrou (2002). Additionally, preference was given to long-established establishments. A comprehensive search was conducted in databases to compile a list of the most "traditional" restaurants in Porto Alegre, the eleventh most populous city in Brazil and the capital of Rio Grande do Sul state. This research evaluated articles from reputable local media outlets, such as *Jornal do Comércio*, *Gazeta do Povo*, and *Gaúcha ZH*. The restaurants listed in the articles were ranked by the frequency of occurrence. After excluding repeated establishments, a total of 34 restaurants were identified as the sample size. Subsequently, telephone contact was made with all of them, starting with the most referenced ones, scheduling interviews with those who were willing to participate.

Data collection was conducted through 15 face-to-face interviews with restaurant owners or partners between May and July 2023. In total, 712 minutes of audio were collected and transcribed manually.

The characteristics of the 15 analyzed restaurants are summarized in Table 1. All the investigated restaurants fall within the scope of traditional restaurants, either by preserving authenticity and cultural heritage through the maintenance of established recipes and practices over time (Kim *et al.*, 2020; Skuras & Vakrou, 2002), or by preserving an authentic style and atmosphere (Lee *et al.*, 2022). Additionally, in this study, traditional restaurants were defined as those that not only maintain time-honored products and recipes, using typical ingredients from a particular region and establishing a connection with the local community but also adopt management approaches committed to preserving their identity, which characterizes them as traditional in the eyes of customers.

Table 1 - Characteristics of Establishments and Interviewees

Identification	Business Age	Specialty	Number of Employees	Management	Interviewee Position
R1	56	Steakhouse	32	Family-owned	Owner
R2	141	Cafeteria and à la carte meals	28	Partnership Managing	Managing partner
R3	46	Steakhouse and Pizzeria	16	Partnership Managing	Managing partner
R4	84	Italian Cuisine	32	Family-owned	Owner
R5	96	Ice Cream Shop and Cafeteria	20	Partnership Managing	Managing partner
R6	88	Steakhouse	55	Family-owned	Owner
R7	41	Snack Bar, Juices, and Buffet	23	Family-owned	Owner
R8	54	Steakhouse	97	Family-owned	Owner
R9	29	Steakhouse	15	Family-owned	Owner
R10	71	À la carte meals	18	Family-owned	Owner
R11	22	Pizzeria	50	Family-owned	Owner
R12	14	À la minuta	18	Family-owned	Owner
R13	61	German Cuisine and à la carte meals	7	Family-owned	Owner
R14	56	German Cuisine	34	Familiar	Owner and administrative manager
R15	37	Ice Cream Shop	3	Family-owned	Owner

Source: Elaborated by the authors, 2023

The average age of the investigated restaurants is 59.7 years, with the majority being family-managed businesses. Considering that 35% of Brazilian restaurants close within two years of opening (Cunha, 2020), the longevity of the investigated restaurants demonstrates successful business management (Smallbone, 2012), as they have survived different economic cycles and changes in social context.

In Brazil, there is no standardized terminology for classifying the size of a company. The General Law for Micro and Small Enterprises (Complementary Law No. 123/2006) classifies business size based on revenue. On the other hand, Sebrae indicates that the size of

companies varies according to the number of employees: companies with fewer than 9 employees are considered micro, 10 to 49 employees are classified as small, 50 to 99 as medium, and above 100 are considered large (Sarfati, 2013). Therefore, according to Sebrae's classification, the interviewed companies are distributed as follows: 2 micro, 11 small, and 3 medium-sized.

Another important point to highlight is that even restaurants whose main product is typical food from other countries (R4, R11, R14, R13), all of them have some type of dish with typical traits of Brazilian cuisine in order to connect with the local community. For example, R4 specializes in southern Italian cuisine but includes "carreteiro" (a typical dish from southern Brazil) on the menu. R14 specializes in German food but always offers rice and beans in the buffet (common Brazilian daily food). R11, a pizza restaurant, has the "barbecue flavor" on the menu.

For data analysis, this study adopted Thematic Analysis: a method of qualitative analysis to identify, analyze, interpret, and report patterns (themes) from qualitative data (Souza, 2019). According to Braun & Clarke (2014), Thematic Analysis is characterized by its flexibility, being essentially independent of a specific theory or epistemology, and its applicability to data sets of varying sizes. In this sense, the guidelines proposed by Braun and Clarke (2014) were followed, which involve becoming familiar with the data, generating initial categories, searching for themes, reviewing themes, defining and naming themes, and producing the report.

Thus, data analysis was divided into four main stages. The first stage consisted of becoming familiar with the data and making initial identifications of relevant references in the transcriptions. In the second stage, these references were categorized, with the support of NVivo 14 software. The initial categorization resulted in 351 references. In the third stage, these references were analyzed, giving rise to three thematic cores: expansion of innovation capacity, reinforcement of identity, and affective memory. These three themes represent the elements between customer co-creation, customer engagement, and the generation of sustainable competitive advantage, as demonstrated in Figure 2 in Section 4.4. After creating, reviewing, and naming the themes, the data were re-analyzed from the perspective of the dimensions and categories of co-creation established by Frow *et al.* (2015), resulting in Table 2, available in Section 4.1.

The report's writing presents the analysis of each of the thematic cores: expansion of innovation capacity (Section 4.1), reinforcement of identity (Section 4.2), and creation of affective memory (Section 4.3). After a thorough analysis of each of the three thematic cores, Section 4.4 presents the relationship between the analyzed themes (Figure 2), as well as a design framework for customer co-creation in traditional restaurants (Table 3). This framework is the result of analyzing the best practices of customer co-creation and customer engagement in the investigated restaurants, serving as a tool for application in further research and the improvement of managerial practices in traditional restaurants.

#### **4. RESULTS AND DISCUSSION**

The findings obtained reinforce, therefore, that the management of customer co-creation and customer engagement is a powerful tool for generating sustainable competitive advantage (Barney, 1991; Frow *et al.*, 2015; Prahalad & Ramaswamy, 2004; Yen *et al.*, 2020). By deepening this relationship, the key elements by which this connection is established in the context of traditional restaurants were identified, contributing to addressing the literature gap identified by Lee, Pung, and Chiappa (2022). While the creative and close relationship with the customer enhances the innovation capability by making them an active agent in the co-creation process, their engagement with the establishment contributes to



reinforcing the business's identity and creating affective memories. These elements will be further explored in the following sections through the analysis of the identified best practices and their relationships with the dimensions and categories of co-creation proposed by Frow *et al.* (2015).

#### 4.1 Expansion of Innovation Capacity

The analysis of the collected data demonstrated that the creative and close relationship with customers boosted the innovation capability of the investigated restaurants. Many of the innovations implemented by them originated from co-creation processes with their customers.

The increase in potential for product innovation (Schumpeter, 1942) was the most recurrent outcome found in the processes of customer co-creation in the analyzed cases. Several restaurants reported the creation and development of new products that stemmed from co-creation processes with customers (R1; R3; R4; R6; R7; R8; R11; R13; R14; R15).

There are dishes that customers created. There was a steak called *Palmares* because it was a group of people who always came from *Palmares do Sul*. They would say, 'I want a steak like this, like that. Can you make it for me?' And I made it! Then it became part of the menu. There was also a public prosecutor. [...] He would try everything here in the restaurant. [...] So I started making different steaks for him. There was one that he loved and stopped ordering the others. [...] So we put it on the menu because of that customer. It was a dish that was invented because of him (R4).

We have the *Comandante Fish*. He has already passed away; he was a retired *Varig* pilot. He had been to Thailand and had eaten a fish with caramelized apple and sweet sauce. And he asked us to make it. [...] We made it, and he liked it. He would come to have it every Friday. We started offering it to other customers who wanted a suggestion for something different, and eventually, it made its way onto the menu as the *Comandante Fish* (R14).

Another notable example was the case of restaurant R8, which claimed to have developed a new type of fried polenta at the request of a customer. This dish has become one of the main products of the establishment, serving as a strong attribute that contributes to the business's identity and has also driven revenue generation, as reported:

She asked, 'Can't you make a thinner polenta for me?' [...] I went to the kitchen, grabbed the cook, [...] don't make it thick, she wants it thin, fried, and so on. So, I made it for her. I made it one Sunday, made it again the following Sunday, and then another couple saw it and started asking for it too. Before I knew it, I was making a bunch of it! So, I had to buy more frying machines, change a system I had in the house, and nowadays I sell an average of one ton of corn flour per month, just by making polenta (R8).

Another relevant factor was the participation of customers in marketing and promotional activities in the investigated restaurants (R1; R2; R4; R7; R8; R9; R11; R12; R13; R15). Some restaurants (e.g., R9; R7; R12; R13) did not hire advertising agencies or engage in marketing efforts, relying almost exclusively on customer engagement for brand promotion:

Our marketing is word-of-mouth [...] Marketing has never been our policy. In fact, our website was created by a girl [customer] (R7).

On the other hand, there are restaurants (e.g., R2; R4; R8; R11) that commonly carry out advertising campaigns but also utilize co-creation processes to drive innovation in their marketing strategies:

We ran a campaign to launch a book, a collection of short stories [...] Every customer who brought a story about [Restaurant R2] received a complimentary dish. We collected over 500 stories for the book (R2).

In addition to driving innovation in marketing strategies, it was common to find in the investigated restaurants the availability for dish customization according to customer preferences and tastes (R6; R7; R9; R10; R11; R12; R14), enabling the expansion of product and process innovation through co-creation. Restaurant R11 mentioned that they customize pizza flavors according to customer preferences, even if they are not on the menu. In the same vein, interviewee R6 and R7 stated:

My grandfather had a saying that he passed on to my father: 'We'd rather lose a steak than lose a customer.' If a dish is served and it's not to the customer's liking... we swap it, we adjust it. We do whatever it takes for the customer to leave here satisfied (R6).

[...] here, whatever the customer comes up with, if it's within our reach, we'll do it for them! Omelets, specialty juices, shakes with supplements... anything we can do, we do. We adjust for them (R7).

In addition to the cases mentioned in the previous paragraphs, the data analysis revealed dozens of other co-creation practices with customers that fueled innovation capacity in various areas and activities of the restaurants. There were reported cases of co-creation for innovations related to the physical structure of the restaurant (R2; R4; R12; R13); organizational innovations (R1; R2; R4; R13); process innovations (R1; R4; R7; R10); innovations that enabled the creation of events (R2; R4; R12; R14), and innovations in the business model (R4; R14). As an example of joint creation in restaurant decor, R13 states:

Customers brought in some artworks. This one, a gentleman brought it from Germany. Others are photos of friends who come here frequently. That one over there is a group of kids who come often. [...] And now, the other gentleman who just left, he's also going to put up a photo of his friends who used to come here. I say, 'Let's do it.' If the customer is known and a friend, they can hang a painting inside (R13).

Based on the analysis of the decisions and actions implemented that enabled the expansion of innovation capacity in the investigated restaurants, Table 2 was developed. In this table, the reported decisions and actions were grouped into types of innovation and later aligned with the dimensions and categories of co-creation proposed by Frow *et al.* (2015).

Table 2 - Dimensions and categories of co-creation to expand innovation capacity

Innovation	Co-creation motive	Co-creation form	Engagement platform	Level of engagement	Duration of engagement
Product innovation	Create more competitive offerings	Co-conception of ideas	Joint processes	Behavioral	Recurring
Marketing	Build brand awareness	Co-promotion	Digital application / Personnel groups	Behavioral	Recurring
Dish customization	Create customer commitment	Co-consumption	Joint processes	Behavioral	Recurring
Physical structure	Enhance customer experience	Co-design	Joint processes	Emotional	One-off
Organizational innovation	Decrease cost	Co-production	Joint processes	Emotional	One-off

Process innovation	Decrease cost	Co-production	Joint processes	Emotional	One-off
Event creation	Create more competitive offerings	Co-promotion	Joint processes	Behavioral	Recurring
Business model	Create more competitive offerings	Co-conception of ideas	Joint processes	Emotional	One-off

Source: Elaborated by the authors, 2023

It is important to note that although the entire sample reported the relevance of staying close to customers and providing good service, in some restaurants (e.g., R6; R7; R12; R13), co-creation processes occurred purely empirically. In other words, managers seemed to be simply carrying out their usual activities without full awareness that they were co-creating or understanding the potential benefits of these processes. On the other hand, there were restaurants that were more conscious of the benefits of planning actions that utilized the customer as a tool to drive innovation capacity in the business (e.g., R1; R2; R6; R11; R14). Through the analysis of the narratives, it became evident that the restaurants that adopted systematic co-creation practices, with an understanding of their benefits, had their innovation capacity expanded compared to the others.

You have to innovate, of course, but you have to take care of the essence of things. The essence is crucial when the establishment has been around for so many years. [...] You have to be careful not to lose the visual identity, the taste of that product, of that dish. [...] And when you have customers who have been coming for a long time, they can help improve things in various ways, in the right aspects (R1).

Having presented the co-creation practices that result in the expansion of the business's innovation capacity, the following section will discuss the reinforcement of restaurant identity through customer relationships.

## 4.2 Identity Reinforcement

The second element to be analyzed is identity reinforcement. The investigated restaurants rely on maintaining their status as traditional establishments and their recognition over time. The preservation of a strong identity is considered essential to achieve this goal and leverage it as a competitive advantage in the market (Kunsch, 2003). Increased engagement, therefore, influences and is influenced by the reinforcement of the restaurants' identity, which can occur in different ways.

Although being seen as a "traditional restaurant" and having this characteristic as the basis for identity construction is crucial for attracting and retaining customers (Lee *et al.*, 2022), this definition of "traditional" identity, as identified in the sample, can be built through various factors. In other words, there are multiple attributes that contribute to the business's identity, and through the customer relationship, these attributes can be strategically reinforced and managed over time.

The most frequently found attribute in this research as a source of identity maintenance was the close relationship with the team, including employees and owners (R1; R2; R4; R5; R6; R7; R9; R10; R13; R12; R14; R15). This proximity, through conversations, relationships, and jokes, results in the generation of trust, a sense of comfort, and anticipation from the staff regarding the customer's usual orders due to their prior knowledge of their preferences.

I think our flagship is something that is intrinsic. My parents have always worked in the business, I have too, and now with my children working, we are in the third generation. There is always someone from the family here, and people like it, it's important (R14).

Since they are long-time employees, they already know what the customer likes, right? The customer has trust and becomes a partner, a friend of the house. [...] When a grandfather comes, he introduces me to his son, and now his grandson is coming, who goes to the kitchen to get fries with the cook he already knows. Man, not every place has that, right? (R10).

Another form of identity reinforcement frequently identified was through the standardization of offered products (R6; R9; R11; R13; R14; R15). Although not every company chooses to associate its identity with the product, opting for other market positioning strategies, in traditional restaurants, this was one of the most identified means of identity reinforcement.

Inventing a new dish every day is easy; the difficult part is having a team of cooks that can make the same thing every day, meaning that you can maintain the taste, the standard, so that the dish always comes out the same, and the sauce always comes out the same. That's the hardest part. And that's what customers want. That's why they always come back (R14).

We have an ice cream that we launched more than 20 years ago, on Children's Day, and we can't take it off the menu. We have so many great flavors, and regularly we create a different flavor, [...] but I can't remove this one; there are many people who still ask for it (R15).

Identity reinforcement was also identified through the conception of the restaurant as a space for socializing. There are regular customer groups that use the restaurant as a meeting point and for gatherings, incorporating these events as part of their personal routines (R1; R9; R11; R13; R14; R15), resembling the co-creation by personnel groups in the dimensions of Frow *et al* (2015).

Man, on the weekends, I have families coming; during the week, I have real estate agents who come and want to have a beer with their friends and not work for the rest of the day. At night, there are people who come after playing soccer or other sports [...], runners, paddle tennis players, football players, you name it. There are many groups that come here (R9).

To a lesser extent, identity linked to the physical structure was also observed (R8; R11; R13; R14).

The yard is an important aspect for customers. Outside, you see, I planted trees and preserve them. [...] There is a guy who takes care of my trees, and it's not cheap, it costs \$7,000 BRL to \$8,000 BRL per year for him to take care of my trees. But without the yard, [Restaurant R8] loses its own identity; it would look like an ordinary house (R8)

Less frequently, other attributes that contribute to the restaurants' identity were identified: community engagement (R10; R15), cultural engagement (R2; R10), pricing positioning (R11; R13), location (R11), and differentiated days and hours of operation (R8).

Although not directly related, identity reinforcement also has characteristics that can be enhanced through customer co-creation, following the categories and dimensions proposed by Frow *et al*. (2015). These include enhancing customer experience, creating customer commitment, and building brand awareness as motives; co-promotion, co-experience, and co-meaning creation as forms; personnel groups, joint processes, and physical resources, spaces/events as platforms; cognitive and emotional engagement levels; and recurring duration.

### 4.3 Affective Memory

As a final element of analysis, affective memory emerges as a significant factor. Affective memory, from the perspective of cognitive psychology, corresponds to a process that enables the recollection of past experiences by utilizing information obtained in the present moment (Sternberg, 2000). In the field of hospitality and tourism, Sartori, Cruz, and Tricarico (2021) define affective food memory as the one that relates symbolic aspects of consumed foods with a nostalgic experience, which can be positive or negative, present in individual and/or collective memory.

In the interviewed sample, it was found that the creation of affective memory is an effective argument to engage and retain customers in traditional restaurants. However, this study identified other sources of affective memory beyond taste, which also contributes to bridging the literature gap in the gastronomy field (Sartori, Cruz, & Tricarico, 2021).

The most prevalent association between the restaurant and customers' affective memory was the family habit (R1; R2; R4; R5; R6; R7; R9; R11; R12; R13; R14; R15). The habit of always going to the same restaurant can become a family tradition over time. The restaurant can serve as a reference as a place where the family celebrates special occasions or has regular gatherings for meals and socializing.

People come and say, 'Oh, I want my child's first ice cream to be here because my first ice cream was here.' The stories come, you know? (R15).

But that's right, they would tell that they came with their grandfather. That was where the father paid for the first beer for the son. There are some who say to [the restaurant's oldest waiter], 'you are like a father to me because my parents met here' (R2).

Some customers have been coming since we opened the place. There are customers who came when the wife was pregnant, and now their child is also our customer, and they are almost bringing their own child too, you know? It's a very good relationship (R11).

Another recurring topic, whether associated with family or not, was the relationship between affective memory and a nostalgic feeling, evoking childhood memories or moments lived in the establishment (R1; R2; R4; R7; R10; R13; R14; R15).

So, people who have passed away, you know? Who left a story within [Restaurant R10]. They are also remembered. You know, when friends gather, for example, to pay tribute to a friend who passed away? They gather and leave his chair empty with his name on it, honoring the good times they had here (R10).

There are many nostalgic people. There are those who live abroad and come back, bringing their children and everything, you know. Especially during New Year's, when it's vacation time, many people come from abroad. [...] The other day, a mother came, her son was in Norway, and she came in with her open computer, filming, because her son missed this place (R7).

In third place, taste emerges as the source of affective memory that leads customers to frequent traditional restaurants (R1; R2; R4; R6; R12; R13; R14). Therefore, maintaining flavors and recipes over long periods should be done with consideration for the risk of losing the local identity.

When you live outside of Brazil and you come back, the aromas of things that you experienced many years ago bring incredible memories. And the taste of the food, the aroma, is comforting. It brings you this sensory and memory benefit. [...] So, the traditional dishes, we don't change them. Because tomorrow, you may go live in Norway. In 15 years, when you come back, if I have changed that traditional dish, you will notice. And the idea is that in 15 years, it remains the same (R4).

Among other less frequently encountered ways of evoking affective memory are visual, tactile, olfactory, and auditory aspects. Thus, restaurants can seek to create affective memories using resources beyond gastronomy, including physical aspects of the environment and auditory stimuli, such as characteristic decorations and ambient or live music.

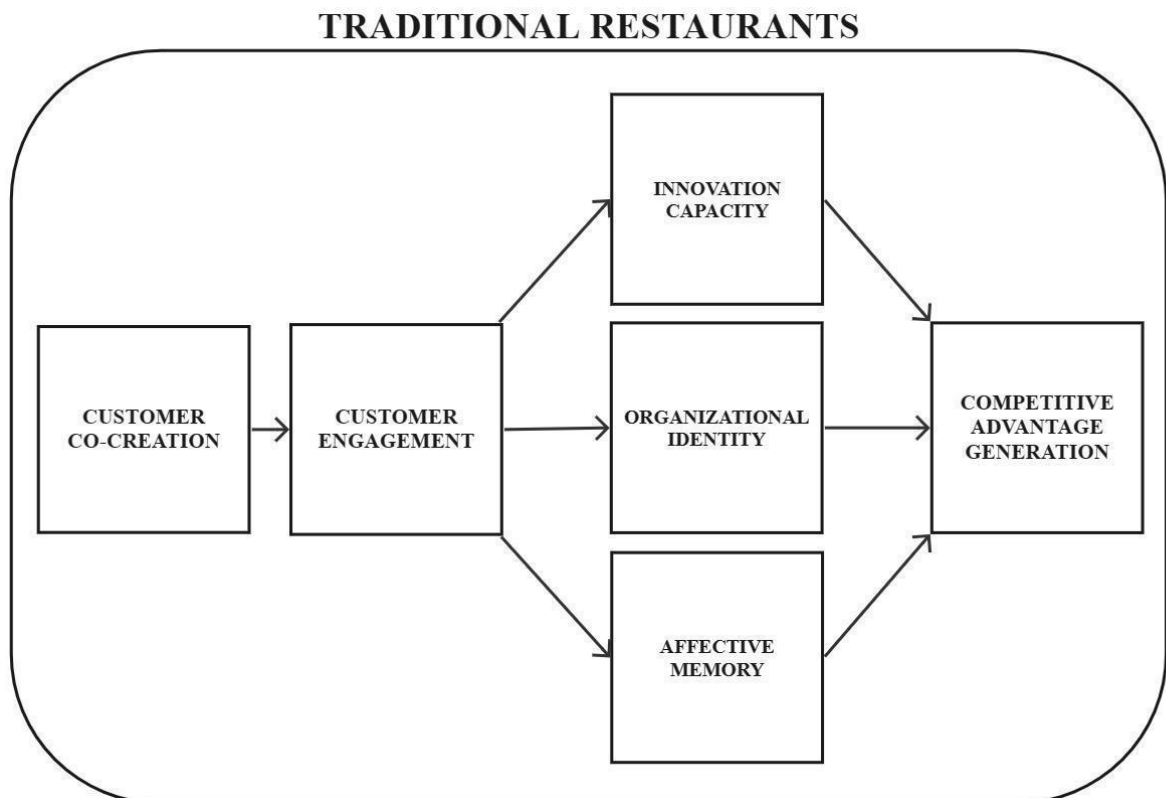
Although affective memory is not explicitly related to co-creation actions, the dimensions of Frow *et al.* (2015) identified in these actions resemble the identity reinforcement dimensions mentioned in section 4.2. In terms of engagement, for example, in the continuum of family habits or groups of friends, cognitive levels can be observed (when the actor cognitively recognizes and provides resources to the focal actor and/or its offerings (Frow *et al.*, 2015)) and emotional levels (when the actor is committed and willing to invest and expend arbitrary effort in engaging with the focal actor and/or its offerings (Frow *et al.*, 2015)).

Having discussed the three elements among customer co-creation, customer engagement, and the generation of sustainable competitive advantage, the following section will analyze the strategic decisions and actions that can maximize the generation and extraction of value from the relationships between the establishments and their customers.

#### 4.4 Strategic Management of Customer Co-creation and Customer Engagement

The process of analysis and clustering based on the identified references resulted in the themes presented in Figure 2: expansion of innovation capacity, identity reinforcement, and affective memory.

Figure 2 - From customer co-creation to the generation of sustainable competitive advantage.



Source: Elaborated by the authors, 2023

Actions that explore customer co-creation and customer engagement processes have the potential to generate sustainable competitive advantage (Barney, 1991; Frow *et al.*, 2015; Prahalad & Ramaswamy, 2004; Yen *et al.*, 2020). In the investigated sample, some restaurants seem to make decisions and take actions empirically and unintentionally (e.g., R7; R12; R13; R15), while others appear to have more established routines for co-creating and engaging customers (e.g., R2; R4; R6; R14).

Among the analyzed restaurants, two success cases deserve special attention. Restaurant R6 reported being the first steakhouse in Brazil, and the opportunity to establish the business arose from a co-creation process with a former customer.

We started by selling packed meals and ready-to-eat dishes. As the business grew and evolved, we opened a cafeteria. [...] In 1935, our family was invited by a customer who was the governor at the time to prepare a barbecue to celebrate the centenary of the Farroupilha Revolution. The event turned out to be such a huge success that the barbecue became a permanent part of the cafeteria's menu. That's how we became the first steakhouse in Brazil (R6).

In the same vein, restaurant R4 claimed to have been a pioneer in implementing "the first food delivery service in Porto Alegre [...] in 1997." The decision arose from co-creation processes with customers who requested food delivery by taxi. Based on this, the managers saw the opportunity to offer meal delivery, resulting in the business model they have today. Currently, the restaurant operates exclusively through delivery, with two preparation and distribution centers in different parts of the city. Another noteworthy fact is that when they decided to close the physical restaurant due to the pandemic, they were able to maintain customer loyalty due to their solidly established identity and strong emotional connection with customers, who remained faithful.

Just as the management of customer co-creation and engagement can be used to explore opportunities, they can also pose threats if not well-administered. Restaurant R5 mentioned that they decided to expand their business by opening franchised stores. However, they did not have the operational capacity to maintain the quality of the products they offered at the flagship location. Considering that their products were a strong attribute of their identity, the inability to maintain the same standards in the franchised units led to the need to close them, risking the loss of business identity and customer engagement.

We no longer open franchises because of that. Franchisees demand a lot of product innovation. "Let's introduce new products? Ah, let's add Sicilian lemon, lemon juice with lemon zest" [...] We gave up on expanding the brand because we were against it. You can't open a franchise that doesn't sell what we have here, this is not [Restaurant R5]. [...] When you open a franchise, customers expect to have the same products, the same quality. So, there is a conflict between trying to change and losing some of the essence. That's why I told you, this will never leave [Restaurant R5] because it's our identity: bomba royal, fruit salad with cream (R5).

In addition to this reported case, several other restaurants mentioned failed attempts to introduce new products, recipes, or preparation methods for fear of losing their identity (e.g., R1; R6; R14). Making drastic changes to attributes that confer the restaurant's identity can be risky. There is a risk of compromising the various forms of emotional memory that engage the customer and preserve their loyalty to the restaurant.

It is important to note that even smaller restaurants with less developed organizational structure and fewer employees (e.g., R13; R15) can find ways to co-create and engage their customers. However, in these cases, the presence of the owners proved to be a crucial component. As an alternative to the need for the owners' presence, some restaurants (e.g., R1; R6; R9) sought to maintain the service staff for long periods of time to facilitate the creation of emotional bonds with customers. To retain employees, some establishments implemented

different forms of remuneration for waitstaff, such as restaurants R1 and R8, which allow waiters to collect and manage their own tips.

In this sense, we argue that the creative and close relationship with customers drives the business's capacity for innovation, as well as being a fundamental component for reinforcing identity and emotional memory in traditional restaurants. However, to extract the maximum value from these multiple relationships, their processes must be carried out strategically. One must weigh the intensity of innovation against the maintenance of attributes that confer business identity and engage customers.

Therefore, based on the investigation of the best practices of customer co-creation and customer engagement that contributed to the expansion of innovation capacity, reinforcement of identity, and creation of emotional memory in the investigated sample, we propose a design framework for customer co-creation specifically in traditional restaurants (Table 3). To that end, the relationships between the co-creation categories and dimensions, following the proposition of Frow *et al.* (2015), are aimed at contributing to (i) expanding the business's innovation capacity and (ii) reinforcing the restaurant's identity and emotional memory among customers.

Table 3 - Design framework for co-creation with customers in traditional restaurants

		Customer co-creation dimensions				
		Motive	Form	Platform	Level of engagement	Duration of engagement
<b>Categories</b>	<b>Innovation capacity expansion</b>	Create more competitive offerings; Decrease cost; Create customer commitment; Enhance customer experience; Build brand awareness; Faster time to market	Co-design; Co-production; Co-conception of ideas	Joint processes; Personnel groups; Digital application	Emotional; Behavioral	One-off; Recurring
	<b>Identity reinforcement and affective memory</b>	Enhance customer experience; Create customer commitment; Build brand awareness	Co-promotion; Co-experience; Co-meaning creation	Personnel groups; Joint processes; Physical resources; spaces/events	Cognitive; Emotional	Recurring

Source: Elaborated by the authors, 2023

## 5. CONCLUSIONS

This study aimed to explore the management of customer engagement and value co-creation as a source of sustainable competitive advantage in traditional restaurants. Based on the analysis of 15 establishments, it was observed that a creative and close relationship with customers enhances the business's innovation capacity, in addition to being a fundamental strategic component for identity reinforcement and the creation of affective memory. Building on the best practices from the investigated sample, a design framework for customer



co-creation in traditional restaurants was proposed, following the proposition of Frow *et al.* (2015), which allows for a deep reflection on creative ways to extract maximum value from multiple customer relationships.

By deepening the understanding of customer co-creation and engagement management processes in traditional restaurants, this study contributes to addressing the gap identified by Lee, Pung, and Chiappa (2022), specifically regarding the lack of understanding of innovation management in restaurants. In this regard, the main theoretical contribution stems from the identification and analysis of the elements operating in the interaction among customer co-creation, customer engagement, and the generation of sustainable competitive advantage in the context of traditional restaurants, investigating this scope from the perspective of co-creation dimensions and characteristics according to Frow *et al.* (2015).

As a managerial implication, the following routine is suggested to enhance the management of customer co-creation and engagement in traditional restaurants:

1. Identify attributes that confer the business's identity from the customers' perspective.
2. Plan ways to engage customers in a manner that fosters the creation of affective memories and identity reinforcement.
3. Manage customer relationships and actively utilize them to expand the business's innovation capacity through co-creation processes, taking care to ensure that implemented innovations do not compromise its identity in the eyes of the customer (strategically innovate, balancing innovation and tradition).
4. Periodically review the structural adequacy of customer co-creation and engagement planning, considering contextual evolution and the need for adaptation, with the aim of retaining current customers and attracting new audiences.

In this sense, the framework presented in Table 3 can serve as a reference for reflecting on the possibilities of actively managing customer co-creation and engagement in traditional restaurants. However, it is important to consider the contextual specificities of each establishment.

As research limitations, the sample size may imply a possible weakness in generalizing the results. Additionally, the findings of this study may be related to the cultural and regional characteristics of the research location. Therefore, it is suggested that future research investigates customer co-creation and engagement processes in traditional restaurants in other locations. Furthermore, it is recommended that the design framework for customer co-creation be used as an analytical tool in future research.

In conclusion, this research provides a strategic approach to the design of co-creation in traditional restaurants, offering companies greater opportunities for innovation with their customer network. Considering that collaborative innovation plays an increasingly important role in organizational success, the systematic adoption of co-creation strategies provides greater potential for value extraction and long-term survival.

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