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How small family-owned businesses may compete with retail superstores

668 **Tacit knowledge and perceptive concordance among owner-managers and customers**

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Abstract

Purpose – The purpose of this paper is to explore the “perceptive concordance” – the proximity of perceptions of the business- between key managers and customers of two small family-owned and managed businesses (“FBs”) and two larger non-FBs in Cagliari, Italy as a preliminary basis for understanding how small retail businesses that are typically family owned have continued to compete and thrive in many Western European cities.

Design/methodology/approach – The authors asked how small FBs have been able to compete in an advanced European economy despite apparent competitive disadvantages relative to large superstores selling the same products. In addressing this question the authors drew on a qualitative research methodology in which the authors interviewed senior managers and surveyed customers of the four businesses and applied an original statistical model to assess the degree of their perceptive concordance with over 100 customers of each business.

Findings – The study’s findings suggest a significant difference between key managers and customers of the sampled FBs and non-FBs in the perceptive concordance of the respective businesses held by those managers and customers.

Research limitations/implications – Based on the research in this study the authors have developed a number of scholarly and managerial implications in the way that both FBs and non-FBs may retain old customers and gain new ones by anticipating and not merely responding to their product and service preferences.

Originality/value – This paper extends the literature on customer relations management (“CRM”) in FBs by explaining how small High Street FBs in competitive retail businesses have continued to thrive in Western Europe where owner-managers have developed and successfully leveraged their tacit knowledge of the requirements of repeat customers.

Keywords Tacit knowledge, Consumer retail industry, Intuitive perception, Perceptive concordance, Small family businesses

Paper type Research paper

Introduction

Despite considerable research on the competitiveness of family-owned and managed businesses (FBs), we know little about how a considerable number of small High Street shops in Western Europe have continued to compete and thrive. Urban studies have suggested how such typically family owned and managed businesses have been unable to compete against well-resourced superstores that have settled in their



neighbourhood (Audretsch, 1995; Coca-Stefaniak *et al.*, 2005). Some observers believe that the FBs selling everyday items might soon disappear from the High Streets of Western Europe (Jones and Ram, 2003).

Yet High Street FBs have not disappeared. In many European cities, small, long-lived bookstores and bakeries continue to thrive, often alongside superstores offering a large variety of products and services (Gruenhagen and Mittelstaedt, 2001). Some of those bookstores and bakeries have kept a leading position in the local market (Jamal, 2003). In our research context of Sardinia, two FBs we have studied continue to sell a large volume of books and bread for many years in proximity to an international superstore that also stocks books and bread- and much more.

Scholars have drawn on the CRM literature to explain this apparent puzzle by suggesting that small FBs may succeed in niche markets where they serve the needs of local customers (see e.g. De Koning and Muzyka, 1998). Small, long-lived FBs may also survive where family owners can combine the human, social and financial capital that they have accumulated to maintain a competitive edge over new entrants (Danes *et al.*, 2009). Yet these views do not explain how small, High Street FBs in advanced European economies have continued to compete and thrive. How have these businesses done so?

Through our research we make two contributions to the CRM literature. First, we offer an empirical, small firm perspective of the popular view that “managing customer relations is important for business success” (Kotorov, 2003). Despite the popularity of this topic in the CRM literature few studies have specifically researched small, owner-managed FBs and/or have provided empirical evidence of the processes in which customer relations may be managed effectively in these organizations. Our paper seeks to fill this gap in the CRM literature by suggesting how small, owner-managed FBs may compete and thrive alongside better resourced competitors by developing a “perceptive concordance” with a small group of longstanding (“core”) customers. The strong, continuing collaboration between owner-managers and core customers may then draw in new customers who are attracted by their repeat custom.

We suggest that the ability of managers and customers to collaborate with one another and to signal their perceptive concordance to new customers may be explained by tacit knowledge. Here our second contribution is to suggest how small retail businesses may compete and thrive because of their ability, over time, to leverage their tacit knowledge of core customers to gain new customers. Drawing from the literature on tacit knowledge, we suggest how such typically long-lived FBs can lock-in customers through a process of on-going feedback and informed action that is initially developed with a small number of repeat customers (Nelson and Winter, 1982). In FBs, tacit knowledge of customers may be passed to successive generations of family managers where incoming managers continue to share and develop close customer relationships (Haldin-Herrgard, 2000).

The following section draws on the literature on tacit knowledge to address our perceived gap in the CRM literature. We then describe how we applied an index of perceptive concordance (“PCI,” Dessì and Floris, 2010) to assess similarities and differences in the buying preferences of repeat customers and top managers. The discussion draws on these results to address our research question, and we conclude by suggesting how perceptive concordance may help both FBs and non-FBs to compete and thrive.

Theoretical framework

In our research we adopted a knowledge management perspective of CRM that views the existing customers of a business as its main source of knowledge for developing the business (Kotorov, 2003). We first explore this literature in relation to small FBs and then describe the process of managing long-term customer relationships by drawing on the literature on intuitive perception. Having explored the role of intuitive perception in customer relationships, we examine a particular strain of this literature—on tacit knowledge— in considering its ability to explain the process of managing customer relationships in small FBs that are engaged in consumer retailing.

Managing customer relations in small family businesses

Our perspective of knowledge management contrasts with a mainstream view of CRM that seeks new ways of satisfying customers (Gibbert *et al.*, 2002), for example, by developing new technology (Chen and Popovich, 2003). We believe that a firm may improve its competitiveness by a continuing process of learning about the lifestyle preferences of a target group of existing customers (Sheth and Parvatiyar, 1995). The aim here is for managers to gain and maintain a regular stream of knowledge of these customers in order to anticipate their future requirements (Bose and Sugumaran, 2003). A knowledge management view of CRM seeks to achieve this by developing existing customer relationships, which may be achieved through face-to-face interaction with customers that they already know (Lamberti and Noci, 2010).

Scholars of small FBs believe that the competitiveness of these firms might be due, for example, to their unusual ability to develop long-lived customer relationships (Cooper *et al.*, 2005). In building public trust in the firm, FBs with longstanding customers may be better placed than non-FBs without these customers (Biberman, 2001). New and old customers may then buy from FBs despite competing choices (Reichheld and Teal, 1996). Importantly, superior customer loyalty may generate competitive advantage as new customers are attracted to the FB by the buying behaviour of old, returning customers (Reichheld and Teal, 1996). Customer relationships in FBs may provide a unique competitive advantage where the loyalty of a group of customers has been cultivated over generations of owner-management (D'Aveni, 1994). Deeper knowledge of the preferences of these customers can then feed into specific improvements of the business (Ashley-Cotler and King, 1999).

Yet, despite this work few studies have explored how small FBs may improve their business by leveraging long-term customer relationships (Sharma *et al.*, 1996). Developing this knowledge is important because we know that customer relationships constitute one of the few areas in which small FBs with low capital have been able to compete with other businesses (Jamal, 2003; Jones and Ram, 2003) that have invested, for example, in high technology to capture and retain customers (Ziliani, 2000). Our research sought specifically to understand the processes in which small High Street retailers have sought to compete by exploring the extent to which two FBs have developed and leveraged their customer relationships. We suggest that an understanding of this process might be derived from the extensive literature on perception.

Intuitive perception in small businesses

Perception is a process by which people select, organize and interpret their perspectives of the world based on their individual experiences (Elsbach, 2006). By building on their responses to each experience, perception can become an intuitive skill that helps experienced people to anticipate and prepare for new situations (Rookes and

Willson, 2000). The psychology literature has developed two main theories of perception. The first theory, Passive Perception (Descartes, 1641/1969), is based on a passive acceptance of external stimuli where the brain processes inputs and produces reactive outputs. By contrast, the second theory, Active Perception (Gregory, 1966), suggests that perception involves an active and dynamic interaction between external stimuli and cognitive processes based on memory and sense-making.

In small FBs, Gregory's notion of a dynamic relationship between external stimuli and cognitive processes suggests that (external) customers and (internal) managers may develop ever-closer perceptions of their common surroundings through regular, face-to-face interaction. Typically therefore, a small, long-established FB will relate well with local customers with whom successive managers have gotten to know well (Besser, 1999). As these businesses are typically family-owned and managed, new entrants in the same market have often been unable to gain a foothold where repeat customers, through longstanding relationships with owner-managers, have become "locked into" supporting the business (Besser, 1999).

Tacit knowledge and competitiveness

We suggest that the process in which owner-managers of FBs may relate with their core customers is through tacit knowledge. While explicit knowledge of a phenomenon can be measured and communicated to a large audience (Ichijo *et al.*, 1998), tacit knowledge of the same phenomenon reflects a deeper understanding of its nature and processes that is difficult to pass on (Nelson and Winter, 1982), and may only be developed, over time, through close, personal experience of the phenomenon (Polanyi, 1966). Tacit knowledge may help a firm to compete and thrive where it can build on its understanding of customers to anticipate their requirements (Nonaka and Takeuchi, 1995), without merely relying on the firm's knowledge of customers' past preferences. With tacit knowledge, small retailers may compete in markets that they know well by signalling their business strengths to customers and by demonstrating that certain business strengths suit their personal tastes. Successful signalling may be achieved by a continuing process of customer feedback and informed action. Existing customers feed their buying preferences back to owner-managers through face-to-face interaction, and managers then channel their tacit knowledge of customers' preferences in anticipating new products and services for those customers (Nonaka and Takeuchi, 1995). Tacit knowledge of old customers can have a knock-on effect in attracting new customers when they see FBs continuing to engage with existing customers (McAuley *et al.*, 1997), for example, by stocking specific products for their customers. This view of tacit knowledge in small FBs is consonant with its nature as an interactive process where the number of parties that are engaged in the feedback process can grow exponentially (Salomann *et al.*, 2005).

Additionally, small FBs may remain competitive when one generation of owner-managers passes its tacit knowledge to the following generation (Sharma, 2004). In a sense, FBs have better opportunities than non-FBs in transferring tacit knowledge when close-knit family managers trust one another (Haldin-Herrgard, 2000), and succeeding managers can continue with relationships that their predecessors have made. Significant tacit knowledge of customers may therefore be found in small, long-lived FBs because of the personal and time-dependant nature of tacit knowledge. More tacit knowledge of customers may in turn contribute to closer, more intuitive perception of customers' preferences by an FB's owner-managers (Dessi and Floris, 2010). This view suggests that where owner-managers have developed an intuitive

perception of their customers' preferences, then this would be reflected in managers and customers holding proximate perceptions of the FB's business strengths (Dessi and Floris, 2010). We now draw on our research to explore this view.

Method

Research context

We studied two small FBs and two larger non-FBs. All four businesses were located in a single neighbourhood of Cagliari, the capital of Sardinia. Sardinia offers a plausible research context for two reasons. First, the setting is well defined as family and non-family businesses compete in a small retail market with a stable local population that is significantly augmented by tourists, mostly in summer. We believe that this mixed sample of respondents strengthened our findings as we did not rely on a single customer base (Petersen and Rajan, 2002). Equally, the stable population of customers allowed us to compare the perceptions of managers and customers based on repeat purchases (Verhagen and Van Dolen, 2009).

A second reason for the research context is that Sardinia's retail market, while stable, has grown over the past few decades. This has followed the development of new, primary industries, and Mainland Italians have settled in Sardinia to operate and support these industries (www.regione.sardegna.it). This growth has attracted international superstores; and several have settled locally. Yet superstores and small local FBs have continued to compete, often in proximity to one another. Our sample of FBs and non-FBs matches this profile as well-known retail businesses in Sardinia that are closely located to one another.

Two family businesses

We sought multi-generational family owned and managed FBs in consumer retailing so that we could explore issues of business longevity and customer retention in a competitive industry (cf. Gersick *et al.*, 1997; Verhagen and Van Dolen, 2009). Two FBs in Sardinia met this criteria, *Succa Snc*, which sells books and stationery (www.succa.it), and *Putzolu Snc*, a chain of bread and pastry shops. The two FBs employ between 50 and 100 staff and have an annual turnover of between 20 and 50 million Euros.

Succa was founded in 1959 and remains at its original location in Sardinia's capital, Cagliari. The founder's four sons inherited and have continued to run the business since the 1990s. This single-store bookshop has kept a policy of stocking a narrow range of books that are regularly updated based on the store's perception of customer preferences. While other leisure products such as electronic gadgets are also stocked, these are also limited to specific brands for *Succa's* customers. *Putzolu* was founded in 1948 and is now in its third generation of owner-management. From its base in Serramanna, the FB has opened two other shops in Sardinia, including the Cagliari bakery and shop where we conducted most of our research. While *Putzolu's* business is more stable than *Succa's*, it has more competitors than *Succa*, although both businesses are considered leading retail businesses in Sardinia.

Two non-family businesses

Owner-managers of *Succa* and *Putzolu* believe that the main competition for their customers is from two much larger and newer non-FBs from outside Sardinia. These two non-FBs are separately managed but belong to a single, international chain of superstores, the E.Leclerc group, that in turn forms part of the conglomerate of Conad-E.Leclerc with over 32,500 employees and 30 "hypermarkets" in Italy[1]. Conad

superstores have operated in Sardinia since the early 1980s. The Conad bookstore sells a large collection of books, stationery, and electronic items, while the Conad bakery makes and sells many types of bread and pastries 24/7[2]. Both businesses occupy a much larger floor space than Succa and Putzolu.

Research design

Our research design drew on interviews with store managers and a survey of customers. We then applied a statistical model to our data to explore the degree of intuitive perception between managers and customers of our four businesses. Specifically, we wanted to learn how intuitive perception between managers and customers may be used by these businesses to compete and thrive. We tackled this question in two parts. First (*RQ1*), we assessed the degree of concordance between the perceptions of senior managers and repeat customers of each of the four businesses. We believe that *RQ1* helps us to understand how well managers of our sampled businesses related with a group of their repeat customers based on the extent to which they shared the same views about certain key features, or strengths, of each business. For *RQ1* we first interviewed top managers of all four businesses. Based on these interviews we developed questionnaires for customers of each business. We then administered the questionnaires over 12 months in the four shops. This timeframe was used to control for seasonality.

The results of the questionnaires were analysed with our PCI (Dessi and Floris, 2010). The key advantage of this statistical method was in enabling us to distinguish the views of repeat customers from those of new customers on the store's strengths and weaknesses, and to analyse the views of repeat customers who might have a deeper understanding of this. The PCI was applied to over 100 customers of each of four stores, and we obtained usable returns from a total of over 400 customers. With this number of returns we were able to engage statistical research methods to satisfactorily address *RQ1*, which was about assessing the proximity between the views of senior managers and those of repeat customers.

Apart from the PCI, a further statistical method, on probability, was used to assess and support the PCI results by exploring if there was a causal effect between those results and the particular nature of the firm as a family-owned or non family-owned entity. Our rationale for using this probability method was to assess the relationship between the nature of the firm and customers' preference for buying from the outlets in which they were surveyed. Data from our PCI supported by the results of this assessment comprised the body of our findings, which we then interpreted. In this second part of our research (*RQ2*), we interpreted our findings by relating them to our knowledge of the literatures on intuitive perception and tacit knowledge. The aim here was to understand how managers of our four businesses drew on their intuitive perception of customers to manage the business. So, while *RQ1* assessed how far top managers and a group of their customers concurred in their views of the respective businesses, *RQ2* explored how our sampled firms used their customer knowledge to compete in the marketplace.

Data collection

We interviewed four owner-managers of Succa, three owner-managers of Putzolu, and the "Director-Manager" of each of the two Conad stores. All managers were interviewed individually for approximately an hour each. We sought owner-managers and senior managers as we wanted to learn the firm's views of the business and details

of its customers and strategic plans that are normally known only to a firm's top managers (Glaister, 2004). Succa's owner-managers were the four brothers who run the business. Each of the brothers is responsible for a different area of the business, although each of the brothers reported that the views of all four brothers carry equal weight. Putzolu's owner-managers were two brothers and a sister who also reported that their respective views carry equal weight. In the Conad stores, the two managers were the top personnel responsible for managing, respectively, the bakery, and the bookstore. All interviews were semi-structured, with a headline protocol of two key issues for discussion (Appendix 1). These issues were first that we sought to learn what each top manager thought to be the strengths and weaknesses of their business. Second, we wanted to know how managers of the four businesses communicated with (which of) their customers. We obtained further information about how each business perceived its own strengths from secondary data, principally company websites and brochures.

A profile of the strengths and weaknesses of each business was then drawn from our interviews and secondary data. With these profiles to hand we developed customer questionnaires for each of the four firms (Gardner *et al.*, 1998). Each questionnaire contained nine questions on customers' views of the business that they were patronising at the time of our questionnaire. Following questions on gender, etc. to draw a general profile of each respondent (McAdam and Reid, 2001), the main part of the questionnaire asked respondents to indicate their frequency of purchases in other stores and how far their choice of store had been influenced by its specific features (Appendix 2). These features comprised the business strengths that were mentioned earlier by managers. For each feature we allotted a value on a Likert scale with five modalities: 1 (no influence), 2 (little influence), 3 (a reason for my choice), 4 (a principal reason for my choice) and 5 (the only reason for my choice).

Data analysis

With interview and survey data to hand, we coded interviews and survey data from the four businesses using the software "R" (R Development Core Team, 2009). This is an open source programme for statistical computation that has been widely used as reference software (Vance, 2009). Coded data were manually ordered on the basis of the perceived strengths of each business. The degree of concordance between perceptions was then assessed by applying our PCI, as follows.

Suppose that for a certain firm we have a perceptive concordance of $j = 1, 2, \dots, J$. Measured by PCI_j , perceptive concordance may then be noted as $PCI_j = \frac{1}{n} \sum_{i=1}^n X_{ij} - \mu$, where n is the total number of surveyed customers, $X_{ij} = \{1, 2, 3, 4, 5\}$ comprises answers of the i th customer to the j th item, and $\mu = 3$ is the central value of the scale. In our research, as there were $n = 100$ customers, and $J = 7$ items for each of four firms, our PCI was scaled between -2 and $+2$, where a negative value meant that there was no perceptive concordance between managers and customers; and vice-versa.

We attended to the variability of our sample. Confidence intervals account for the variability[3]. We also believed it would be misleading to provide the standard deviation (SD) observed on the PCI for each business strength (which we refer to as "item(s)" in our tables) as there were multiple correlations among items, and the SD of each item may not be an accurate measure of sample variability. We considered this variability by applying a bootstrap technique. First, we randomly took 100 customers from the sample and re-calculated the PCI of each firm. Our computations considered the dependency among different PCIs on different firm features. For example, as it was

possible that respondents' perception of "service" may be related to their perception of "product availability," each PCI was separately computed. Here a bootstrap percentile method (Davison and Hinkley, 1997) was applied to re-sample customers, as follows.

Let X represent the matrix of answers suggested by many rows as the number of surveyed customers and by many columns as the number of items under study. Instead of re-sampling, replacing each column and then analysing the columns separately in a normal bootstrap technique (Davison and Hinkley, 1997), we re-sampled with replacement rows (one row may appear more than once) of X in order to produce the matrix X^* , as if we were analysing a hypothetical enterprise. For a given X^* we then calculated all perception indexes for all items (Figure 1). In doing so we generated 10,000 replications of our X^* matrices, where for each set of PCIs we removed 2.5 percent of the smallest values and 2.5 percent of the largest. Hence the minimum and maximum 95 percent of 10,000 replications were obtained, with a 95 percent confidence interval.

From this figure we may see that for items of "product range" and "parking" there are, respectively, positive and negative perceptive concordances, and the variability of concordances seems both positive and negative. In fact, their 95 percent confidence intervals- shown via dashed vertical lines- are both positive and negative. Their respective medians are shown as a bold vertical line, and these are also positive and negative.

Findings

Table I summarizes our findings of firm strengths, as perceived by each firm's managers. It also shows the respective PCIs of each business between managers and

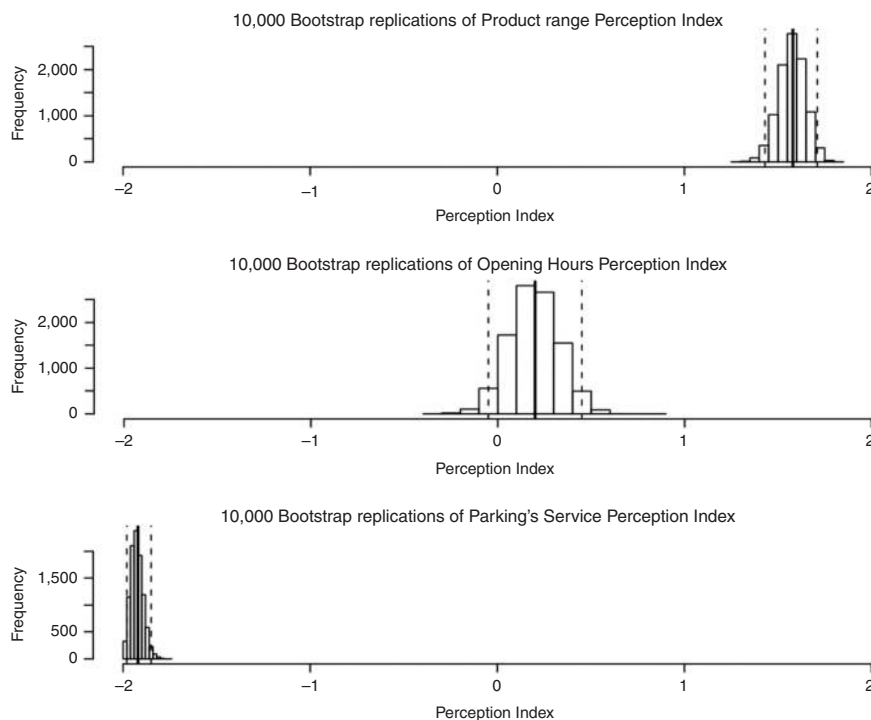


Figure 1.
10,000 Bootstrap replications of Product range Perception Index

Table I.
Managers' perceptions of their firm's strengths

Sacca's managers singled out three strengths of the firm in the following order:

- (1) "Specific products", in terms of the bookstore's carefully chosen printed material for its customers;
- (2) "Timely delivery," which means the availability of products within a short time; and
- (3) "Service," in terms of attentive and knowledgeable assistance to customers.

Managers of Putzolu identified the firm's strengths in:

- (1) "Production methods," which means the use of traditional methods to make bread and cakes for the local market;
- (2) "Product range," which means a wide choice of breads, pastries, and cakes; and
- (3) "Service," which means high professional standards in product preparation.

By contrast, managers of the two non-FBs perceived their strengths in the following order:

Bookstore:

- (1) "Location"
- (2) "Parking," as an important convenience for customers; and
- (3) "Price," in terms of regular promotional offers and prices that are no higher than any other local bookstore.

Bakery:

- (1) "Product range";
- (2) "Product availability," which means the uninterrupted availability of freshly-baked breads 24/7; and
- (3) "Location," which means that the bakery's convenient location within the E.Leclerc superstore allows customers to visit the bakery while shopping in the superstore. However, the extent to which managers' views of their firm's strengths related with customers' views is as follows:

	<i>PCI for interviewed firms</i>							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
	<i>Ic</i>	<i>Ic</i>	<i>Ic</i>	<i>Ic</i>	<i>Ic</i>	<i>Ic</i>	<i>Ic</i>	
Sacca	Specific products	1.58 Timely delivery	0.66 Service	1.09 hours	0.20 Location	0.09 Price	-0.12 Parking	-1.92
Putzolu	Production methods	1.90 Product range	1.63 Service	1.98 hours	-1.62 Location	-1.84 Price	-1.92 Parking	-1.99
<i>Non-FBs</i>				Browsing facility	Opening hours	Product range	Service Production methods	
E.Leclerc Bookstore	Location	0.04 Parking	-0.04 Price	0.44 facility	1.06 hours	-0.13 range	-0.62 Service	-0.90
E.Leclerc Bakery	Product range	0.43 availability	-0.37 Location	Price	0.45 Parking	0.65 Service	0.20	0.63

their customers, and PCI_s calculations for other strengths in the questionnaires that were not highlighted by managers. Those strengths are marked by the symbol “□,” and their PCIs were all negative.

Table II summarizes and orders the sequence of FB strengths after adjusting for customer opinions. Asterisks highlight the change in the order of strengths.

Table III presents our PCI index of the average perceptive concordance for each business strength indicated by FB managers, with a 95 percent confidence interval. Results suggest a strong, positive perceptive concordance between managers and customers of the two FBs while indicating a significantly weaker perceptive concordance between managers and customers of the two non-FBs.

In Table IV we report the results of the PCI intervals from which we generalize the preferences of 100 repeat customers in each FB to our entire sample of over 400 customers. Of this sample over 320 (80 percent) were repeat customers, and this proportion was evenly distributed among our FBs and non-FBs. The PCI intervals obtained, with bootstrap replications, were consonant with results from Table III. We believe this supports the PCIs of our sampled firms. In order to minimize variability in data and for our results to be generalizable, we used multiple correspondence analysis (Venables and Ripley, 2002), where we related all our customer data with their responses to our questionnaires. No significant relationships appeared from this.

Discussion

Based on our findings the following picture seems to have emerged of the relationship between perceptive concordance and customers of the four businesses. In the two FBs, managers’ perceptions of their business strengths were closely related with those of their customers despite each party placing some of their preferences in a different order from one another. This did not matter for their PCIs: As Succa stocked only products that their customers sought, it followed that Succa’s managers and customers have a strong perceptive concordance of the business. Similar results were obtained for Putzolu. By contrast, managers and customers’ preferences in the two non-FBs differed significantly (Table I). For example, E.Leclerc’s bookstore managers thought that parking was one of the store’s main strengths, while their customers were not really interested in either parking or the store’s convenient location and instead sought quality books at reasonable prices. Similarly, customers of the superstore bakery were

	(1)	(2)	(3)
Succa	Specific products	1.58	Service*
Putzolu	Service*	1.98	Production methods
E.Leclerc Bookstore	Browsing facility*	1.06	Price*
E.Leclerc Bakery	Parking*	0.65	Production methods*
			1.09
			1.90
			0.44
			0.63
			0.66
			1.63
			0.04
			0.45

Table II.
Strengths and new ordering post-PCI computation & relative values

Succa	1.11
Putzolu	1.84
E.Leclerc Bookstore	-0.10
E.Leclerc Bakery	0.15

Table III.
Overall PCI

Table IV.
Managers' perception of
firm strengths, relative
PCI & related bootstrap
confidence intervals

	<i>I_c</i>	Bootstrap confidence intervals at 95 per cent	<i>I_c</i>	Bootstrap confidence intervals at 95 per cent	<i>I_c</i>	Bootstrap confidence intervals at 95 per cent
Succa	1.58	[1.45 1.71]	Service	1.09	[0.88 1.28]	Timely delivery
Putzolu	1.98	[1.95 2.00]	Production methods	1.90	[1.84 1.95]	Product range
E.Leclerc Bookstore	1.06	[0.78 1.43]	Price	0.44	[0.06 0.90]	Location
E.Leclerc Bakery	-0.37	[-0.750 0.017]	Parking	0.65	[0.283 1.00]	Production methods

not enthused by its wide product choice, parking facility or production methods. Instead they wanted 24/7 availability of fresh bread.

To sustain these assertions and to explore if there were a causal effect between our PCI values and the nature of the firm, we investigated the relationship of a “familiarity” aspect (which is our shorthand for the “nature of the firm”) with certain values from our PCI. This approach was plausible given our combined sample of over 400 customers, and we conducted the test as follows.

Let α be the difference among perceptions due to “familiarity,” where we estimated $\text{Prob}(\alpha > 0 | \text{for all available information})$ and the effect of familiarity through the mean of alpha and its range with highest probability. Estimating the causal effect, α , required us to estimate the answer of the same customer as if s/he had been surveyed in a firm that was the same as the surveyed firm, but with the familiarity attribute switched. This concept of same customer and same firm is relative to all the information that we have on our customers and firms (age, gender, etc.). Because such a survey is impossible, we used a statistical model to estimate hypothetical answers. These answers represent counter-factual values as we estimated which answer customers surveyed in an FB, Y_f , would have given if the same customers had been surveyed in a non-FB, Y_{nf} ; and vice-versa.

The difference between the two values was positive, $\alpha = Y_f - Y_{nf}$. This meant that customers’ familiarity with the firm that they purchased from mattered significantly for the consumer products and services that they sought. As Y_f and Y_{nf} cannot both be observed on the same customers, we engaged Bayesian Additive Regression Trees (Leonti *et al.*, 2010) to estimate counter-factual values of all surveyed customers. Appendix 3 sets out the probability distribution of α based on observed data.

We now draw on our findings from the PCI and the probability test in making two specific contributions to the CRM literature, first, on the nature of intuitive perception in small FBs, and second, on the role of tacit knowledge in explaining the continuing ability of traditional businesses to compete and thrive in Western European cities.

Intuitive perception in the four businesses

In our FBs, the close, intuitive perception that owner-managers had of their customers’ buying preferences seems a distinctive and valuable feature of those FBs. In terms of distinctiveness, both FBs’ managers and customers appeared to share similar buying preferences, while in the two superstores, we observed a significant divergence between the buying preferences of managers and customers (*RQ1*). In our interviews, managers of our two FBs said that they sought out and spoke regularly, face-to-face, with a number of repeat customers. They then acted quickly following these meetings. By contrast, managers of our two non-FBs said that they sought to “manage the store.” The way that they managed a considerably larger store than the FBs seemed to exclude regular interaction with customers.

The close communication between our FBs’ owner-managers and a number of their customers was reflected in the perceptive concordance between these parties during the period of our survey. Owner-customer relationships may have developed into an informal partnership to improve the business through regular discussion about its further development. The partnership proved valuable when core customers were able to signal to owner-managers how they wanted the business to improve based on their current preferences and interests, without merely relying on the past purchasing habits of all customers. Here, electronic scanners can trace a customer’s past purchases to build a profile of her preferences (Ziliani, 2000), but face-to-face relationships between

managers and customers can develop a deep understanding of improvements that customers want from the business (Cooper *et al.*, 2005). Customers who have developed a close relationship with the business are likely to be long-term, repeat customers. As Cooper *et al.* (2005) suggest, repeat customers can be significant stakeholders in the continuing success of the business; and it follows that they would want their partnership with the firm to be sustained through regular interaction with its top managers. In Succa and Putzolu this was achieved by the small size of the shops where managers who served customers were also the people who could make significant changes to the business.

Based on our familiarity tests, we may also suggest that the loyalty of Succa and Putzolu's customers was based on a shared understanding with owner-managers of their respective lifestyle preferences and personalities. The proximity of each party's perceptions of their FB in turn may have enabled successive owners to develop deeper knowledge of their customers' habits, interests and tastes (cf. Nelson and Winter, 1982). In this view, the products offered by the two FBs may have become a visible symbol (Tsoukas, 2003) that demonstrated managers' understanding of their customers' tastes. While this interpretation requires further research, we believe there is evidence in our analysis of the distinctive familiarity effect in FBs to support our suggestion of a mutual understanding between owners and customers of their lifestyles and personalities. The ability of owner-managers to communicate this understanding in the way that they presented their stores (regularly changing products, sporting specific branded items) may have formed a basis for the deep customer loyalty in our two FBs. Here it seems to follow that managers and customers of the two FBs listed products and service as important features of the business, and not convenience or price.

By contrast, our superstore managers sought to identify features around the business for their customers, such as convenient parking, which their customers did not really want. Our superstore managers were concerned with applying the superstore's knowledge of customers generally, as suggested by the managers' perceived importance of car parking. We suggest that one reason why customers of the two superstores did not rate this and other aspects of the business as highly as E.Leclerc's managers was that these managers had less intuitive perception of who their customers were and what individual customers wanted (Maturana and Varela, 1987) relative to the two FBs.

Accordingly, our PCI findings suggest that managers of the two FBs communicated closely with their customers, importantly about further improvements in the business. This may be seen in the way that both Succa and Putzolu pursued a strategy in which a high-quality, narrow range of products was frequently changed. Customers bought into this perception of the respective FB's business, and new and old customers continued to buy when the FBs kept improving their products and service. This scenario may represent a highly intuitive form of CRM in our two FBs where both managers and customers seem to have offered feedback to one another by signalling their mutual preferences through a continuing process of repeat visits, face-to-face discussions, product selection and buying (Reichheld and Teal, 1996). Such mutual feedback may then have played an important part in strengthening manager-customer relationships when new customers were drawn in and became part of the FB's loyal customer base (Reichheld and Teal, 1996). We believe that our analysis of customers' perceptions – a significantly higher PCI in FBs compared with non-FBs – suggest that the loyalty of our FBs' existing customers helped to attract new customers. We believe that this interpretation is plausible given that our survey data were collected over

a period of several months in which older (residents) and newer (tourists) customers were surveyed.

By contrast, the significantly lower PCI of our non-FBs suggests that customers of our non-FBs might have been looking for several features of the business that were not in fact its strengths; and this perceptive discordance offers an explanation for the continuing success of two small FBs that are situated in close proximity to an international superstore. An alternative view is that as our FBs and non-FBs compete for the same customers, the continuing success of our two small FBs may be explained by the fact of their location beside the two-superstore outlets. While this view takes us beyond our study on perceptive concordance, it also seems plausible that the High Street location of all our four businesses provides enough volume to sustain both the small FBs and the superstore. In this perspective, it may be argued that our FBs have remained successful because they do not compete directly against their neighbouring superstore (cf. Jones and Ram, 2003). Instead, while the two FBs take business from their superstore neighbours, as well-established businesses they compete alongside those neighbours. This suggests that our FBs may have raised the aggregate volume of sales of all book and bread retailers on the High Street, which could have offset any loss of business that neighbouring superstores may have suffered from continuing FB sales (Jamal, 2003).

The nature of tacit knowledge in small family businesses

A second contribution we make to the CRM literature is in better understanding how tacit knowledge was developed over time and drawn on by our FBs to get closer to their customers. For our FBs, this process became important when they were able to retain their old customers and attract new customers in the same High Street as the neighbouring superstore. The close relationships between the FBs' managers and customers therefore shared another common feature in that they were based on regular interaction over an unlimited period of time. Unlike the two non-FBs that had to sustain larger businesses, Succa and Putzolu had been serving local customers for a much longer period. Here the longevity of our two FBs appears to be an important factor in sustaining customer relationships as regular interaction with customers provided owner-managers with a familiar means for deepening their customer knowledge (Nelson and Winter, 1982). This knowledge was tacit because it was implicit and personal to successive owner-managers who were members of a closely knit group of owner-managers (Haldrup-Herrgard, 2000). Owners' tacit knowledge of their customers then became a source of the FBs' competitiveness when it provided private information on improving the FBs for both old and new customers (RQ2).

Accordingly, Putzolu has been able to improve the quality of its bread without compromising its distinctive taste. Similarly, Succa has continued to update its stock frequently in anticipation of customers' requirements without changing its policy of narrow stocking. The competitiveness of such FBs seems to be about remaining highly sensitive to the changing tastes of a core group of repeat customers, and the continuing ability of Succa and Putzolu to thrive alongside international superstores illustrates how small, long-lived FBs may satisfy this need better than superstores. This suggests that in consumer retailing, superstores may not win over the customers of small, long-lived FBs where the former have a shorter-lived and weaker mutual understanding of their customers (De Koning and Muzyka, 1998). In Succa and Putzolu this understanding has enabled them to make knowledgeable decisions in order to satisfy their customers' future requirements (Nonaka and Takeuchi, 1995).

Managerial implications

We believe that this interpretation of managers' and customers' perceptions of firm strengths offers a number of managerial implications for the way in which managers in both FBs and non-FBs may improve their tacit knowledge of customers. A core implication might be that small FB managers in a single retail activity may draw on their tacit knowledge of customers to expand the firm's business into other, unrelated areas of consumer retailing (cf. Nonaka and Takeuchi, 1995) that also suit their customers' tastes.

Second, our study suggests that superstores will also benefit from developing tacit knowledge of a core group of customers and from leveraging this knowledge in anticipating the needs of wider groups of customers. Here, in contrast to the literature on e-customer profiling (see e.g. Ziliani, 2000), it seems insufficient to rely on technology to substitute for the work of old-fashioned face to face relationships, although these relationships require contemporary understanding of the process of developing and drawing on multiple sources of information to anticipate customer requirements beyond a small group of repeat customers. We have discussed one way in which this process of tacit knowledge may be effectively applied.

Conclusions

In owner-managed businesses we know that the continuing involvement of founders can bring unique benefits to their FBs (Danes *et al.*, 2009). We also know that for small FBs to grow and develop they must "play smart" by focussing on developing relationships with core customers whose buying preferences they understand (Carrigan and Buckley, 2008). However, we know little about how owner-managed shops that sell everyday items may continue to compete and thrive alongside superstores in the same neighbourhood. Here our research adopted a knowledge management perspective of CRM in extending these studies to small High Street FBs by explaining how such businesses have continued to compete and thrive where owner-managers have developed and leveraged their tacit knowledge of longstanding, repeat customers. A platform for developing this knowledge seems to be in an on-going partnership between owners and those customers. While the partnership might initially have involved the founder and a small group of customers, over time the FB's successors broadened the collaboration to include new customers and developed the partnership through a process of face-to-face feedback and informed action. The subsequent tacit knowledge of owner-managers then became an important competitive tool when they were able to anticipate their customers' requirements and provide a stream of new products that also served to attract additional customers. This interpretation gives rise to a number of scholarly implications.

Scholarly implications

First, our study has drawn on the literature on tacit knowledge to better understand how customer relations may be managed in retail businesses for them to continue competing and thriving. Specifically, we have explored how two small, owner-managed FBs in consumer retailing have remained competitive by drawing on their tacit knowledge of core customers to strengthen their business. We believe that this perspective of competitiveness in small FBs based on the tacit knowledge of owner-managers in anticipating customer needs represents an extension of the CRM literature in this form of organization. At first glance, owner-managers' practice of narrow-stocking seemed to indicate a product "niche" strategy that is typically

employed by small firms (De Koning and Muzyka, 1998). In fact, however, through regular face-to-face interaction the FBs had developed a system of customer feedback and action that informed their frequently changing selection of products. In turn this process increased their tacit knowledge of their customers and enabled them to reduce their business risk in stocking new products. Old and new customers responded to the FBs by buying books and bread that had been selected for them, although the same books and the same types of bread were also sold among many other products at the neighbouring superstore.

That superstore did not perceive their customers in the same, interactive way and used point-of-sales technology to offer more product variety, etc. Based on our PCI results, mass-product stores might therefore be less attractive for High Street customers of books and bread who are attracted to shops that can anticipate and provide products and services that match their personal preferences. We therefore suggest that:

P1a. The business of retailing generic consumer products such as books and bread may in fact require highly personalized selling strategies, and small, established FBs may have a competitive advantage by drawing on their tacit knowledge of customers in anticipating new products and services that suit their personal tastes.

P1b. In response, customers will continue to buy everyday items from businesses whose managers regularly interact with them and act on their feedback. This proposition seems consonant with scholarly studies suggesting that knowledgeable consumers seek influence over the strategic decision-making process of businesses that they patronize. For example, Prahalad (2004) argued that today's highly informed consumers are dissatisfied with available choices and "want to interact with firms and co-create value" (p. 4).

Accordingly, the way that a number of customers in our FBs continue to interact with their managers to develop an effective system of feedback and action may explain not only the survival of these businesses but their continuing ability to compete and thrive alongside superstores:

P2. The ability of small FBs to draw on their tacit knowledge of existing customers may form a powerful competitive tool when these firms are also able to attract new customers based on their continuing partnership with old customers and visible in-store changes to products and services.

Conversely:

P3. Superstores may continue to attract customers based on their superior distribution network, but they will also continue to lose business to other firms with tacit knowledge of customers.

In enhancing a firm's competitiveness, we may also suggest how our PCI can help scholars and market analysts to learn more about the impact of CRM on a firm's competitive capability. Both FBs and non-FBs may apply our PCI to more accurately project and absorb signals to/from customers about their respective perceptions of firm strengths. This would help businesses to better anticipate

customers' perceptions and continue to thrive in consumer retailing where change is rare, and a long-lived business reputation is often important in signalling product quality (Fombrun and Shanley, 1990).

Further research

Although addressing our research question did not require a large sample of stores, an interesting perspective might arise if we increase the number and types of stores in our study. Like many other capital cities, businesses of many types and sizes operate in Cagliari, and comparing and contrasting the views of FB customers with those of superstores comprises just one pair of possible binary opposites in studying the competitiveness of FBs. Further, as the organizational culture of small FBs is often influenced by the personality and values of their owner-managers (Schein, 1995), this culture is likely to change as FBs grow and their management becomes typically more dispersed (Gersick *et al.*, 1997). While there may be benefits for corporate growth of less owner-centred management, we anticipate that recruiting outside managers to replace family managers will produce PCI results that will become increasingly similar to those of the E.Leclerc outlets. We therefore suggest the following additional proposition for research:

- P4.* High Street FBs may no longer continue to thrive if their owners do not run the business and continuity in the development of tacit knowledge is then broken.

Here we might study different types of FBs (Sharma, 2004) to see how far the apparent competitiveness of our sampled firms may be sustained. For example, how far can FBs retain and attract new customers in a more complex business? What happens to the FB's competitiveness when owners no longer manage the business? In addressing these questions, research may focus on larger FBs in considering differences in perception between managers and customers based on features related to firm growth such as owner-management. These research streams address the broader question into which this study leads, namely: How far may small FBs draw on their tacit knowledge of customers to grow and develop, rather than to remain small, owner-managed and bound to the local market? The example of our FBs suggests that while these businesses may compete and thrive alongside superstores, changes to their ownership structure will erode their ability to manage customer relationships that continues to underpin their competitiveness.

Notes

1. www.conad.it/portal/public/the_e.leclerc_conad_network-e.leclerc_conad-la_rete-mondo_conad-CND-guest-656-3669.html
2. www.conad.it/portal/public/trovaconad_risultati-guest.html?all=&zones=18&towns=CAGLIARI&areaRoma
3. Although confidence intervals are formally different from hypothesis testing, there is a duality between the two. In the frequentist statistic, confidence intervals that include a hypothesis suggest that data are compatible with the hypothesis. So if the hypothesis is of positive (negative) perception and the confidence interval contains only positive (negative) values, then we may say that the hypothesis is also supported by observed data (Casella and Berger, 2001).

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Appendix 1. Specimen management interview protocol

We posed questions, tailored for each business, to managers of our four sampled businesses to learn their views of their firm's strengths and weaknesses.

Preamble: "We are researching the views of managers and customers of family and non-family businesses about their own businesses [...]. Please give us your views of your firm's business by answering the following questions [...]. While we will not identify you, we will compare your views with those of other firms."

- (1) Provide a brief history of your firm with important dates.
- (2) Describe the nature of the market in which your firm operates.
- (3) Describe your firm's previous and current market position.
- (4) Describe your organization and management team.
- (5) Describe your principal competitors.
- (6) Describe your main customers. How do you communicate with them?
- (7) Why do you think these customers keep patronizing your store?
- (8) Why would new customers buy from you?
- (9) What do you think are the main weaknesses of your business?
- (10) How do you know what products to sell to your customers?
- (11) How might you improve your business?
- (12) What are the main constraints to improving your business?

Appendix 2. Specimen customer questionnaire

- (1) Gender
- (2) Occupation
- (3) Age?

- (4) How often do you visit this (store name)?
- (5) How far do you live from (store name)?
- (6) Why did you come to this (store name) today?
- (7) Which other stores do you visit in Sardinia for the product/s that you are buying today?
- (8) Why do you visit those stores?
- (9) How far have the following features influenced your choice of store today?

Assign a score of 1 (no influence), 2 (little influence), 3 (a reason for my choice), 4 (a principal reason), and 5 (the only reason):

- (a) parking space;
- (b) location;
- (c) quality of products;
- (d) price;
- (e) service;
- (f) business hours;
- (g) timely delivery/availability of products; and
- (h) other feature(s):.....

Appendix 3

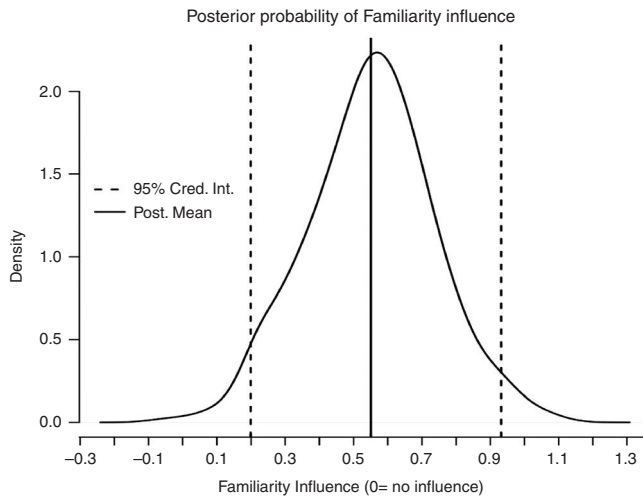


Figure A1.
Posterior probability of familiarity influence

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