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Abstract

We assess the closeness of perceptions between managers and customers of two small family-owned businesses ("FBs") and two larger non-FBs in Sardinia, Italy, in exploring how local retail shops may compete against international superstores. While the decline of small, High Street businesses has been widely reported, we present a more nuanced perspective of their competitiveness by suggesting how these typically family-run businesses may hold a competitive advantage over larger non-FBs based on their well-developed "perceptive concordance" with customers. Our findings have scholarly and managerial implications in the way that both FBs and non-FBs may gain competitive advantage by securing their customers' continuing support.

Keywords: Competitive advantage; Intuitive perception; Perceptive concordance; Small family businesses; Tacit knowledge.

Introduction

Despite considerable research on the competitiveness of FBs, we know little about how small, High Street shops in Western Europe continue to compete and thrive. Urban studies in Europe have suggested how such businesses that are typically family owned and managed have been unable to compete against international stores ("superstores") offering a superior range of products and services (Audretsch, 1995; Coca-Stefaniak *et al.*, 2005). Additionally, owner-managed shops have been adversely affected by legislation (Jones and Ram, 2003), and some have been forced to sell out to superstores (IGD, 2009). It therefore seems a matter of time before the typically family-owned and managed business selling everyday items disappears from the High Streets of Western Europe.

Yet small, High Street FBs have not disappeared. In a number of European cities, the small, long-lived bookstore and bakery have competed side-by-side with neighboring superstores (Gruenhagen and Mittelstaedt, 2001; Jamal, 2003). Here, incoming superstores do not appear to have out-competed incumbent small businesses, some of which have retained their market-leading position (Jamal, 2003). For example, in our research context of Sardinia, one international superstore has been selling books and bread for many years alongside two leading FBs.

Scholars have drawn on the customer relations management ("CRM") literature to explain this apparent anomaly by suggesting how small FBs may succeed in niche markets where they serve the needs of an eclectic group of customers (De Koning and Muzyka, 1998; Getz and Carlsen, 2005). Small, long-lived FBs may also remain sustainable where their family owners are able to combine their "family capital" in terms of human, social and financial capital (Danes *et al.*, 2009) and to apply this capital in maintaining a competitive advantage for the FB (Van Gils *et al*., 2004). Yet both these views do not explain the ongoing competitiveness of small, ubiquitous FBs in traditional businesses[1]. Specifically, how may small, Western European FBs in High Street businesses such as books and bread compete against superstores offering wider choice and better facilities?

[1] By traditional businesses we mean low-technology, FMCG retail and service businesses as opposed to non-traditional, technology businesses involving the application of scientific knowledge (Anna *et al.*, 2000).

We tackled this question in two parts. First (RQ1), we compared and contrasted the degree of concurrence between managers' and customers' perceptions ("perceptive concordance") of the respective strengths and weaknesses in several FBs and non-FBs. To do so, we surveyed 400 customers and interviewed top managers of two small FBs and two larger non-FBs in Sardinia, Italy, that are engaged in the same businesses, respectively, of selling books and bread. We suggest that RQ1 helps us understand how well owner-managers of our FBs related with their customers based on the extent to which they shared the same views about the strengths of their business.

In the second part of our research (RQ2), we examined the extent to which the closeness of perceptions between managers and customers represented a competitive advantage for each firm. So while RQ1 assessed how far owner-managers and customers concurred in their views of their firm, RQ2 considered how our sampled firms drew on their customer knowledge to compete. Here, we ordered our data and applied an index of perceptive concordance ("PCI", Dessi and Floris, 2010) to assess the degree of compatibility between customers' and managers' personal preferences for books and bread.

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' (Brown, 2000; Kotorov, 2003). While good CRM might be good for firms as a whole, we know little about how small, owner-managed shops in Western Europe continue to compete against larger and more resourceful competitors. Our paper seeks to fill this gap by suggesting how certain owner-managed businesses have gained competitive advantage by developing and drawing on a "perceptive concordance" with their customers of the products and services that they seek.

Our second contribution is to suggest that owner-managers of small FBs in traditional businesses such as books and bread can afford to sell a discrete range of products because they possess well-developed tacit knowledge[2] of their customers' preferences. Drawing from the literature on tacit knowledge, we suggest how perceptive concordance in small, long-lived FBs may be achieved over time by a process of customer feedback and informed action (Nelson and Winter, 1982; Salomann *et al*., 2005). In FBs, tacit knowledge of local customers may then be passed to successive generations of family managers (Bowman and Ambrosini, 2007). Accordingly, a competitive strategy that leverages the strengths of FBs in markets that they know well can sustain competitive advantage (Carrigan and Buckley, 2008).

The following section sets out the theoretical foundations of this paper. We then describe the research context and our research method, focusing on our application of PCI and the results we obtained. The *Discussion* draws on these results to address our research questions, and we conclude with several propositions on how perceptive concordance may improve the competitiveness of both FBs and non-FBs beyond our research context.

Theoretical context

Customer relations in small family businesses

In this article, we adopt a knowledge management perspective of CRM as a business strategy that places the existing customers of a business as its main source of knowledge about the business (Brown, 2000; Kotorov, 2003; McKenna, 1991). This perspective contrasts with a more established view of CRM that seeks new ways of satisfying both old and new customers (*cf.* Gibbert *et al.*, 2002; Stefanou *et al.*, 2003), for example, by

[2] Tacit knowledge is an individual's sensory perception of a phenomenon that is developed through regular interaction, in the context of this paper, between owner-managers and customers.

developing new technology (Chen and Popovich, 2003). Instead, a firm may improve its competitiveness by an ongoing process of learning about the identity, background, and lifestyle preferences of its customers (Sheth and Parvatiyar, 1995). The aim here is to derive as much knowledge as possible about customers for managers to be able to anticipate their requirements (Bose and Sugumaran, 2003; Shoemaker, 2001). A knowledge management view of CRM seeks to achieve this by developing and maintaining customer relationships, which may be best achieved through close interaction (Gibbert *et al.*, 2002; Lamberti and Noci, 2010).

Scholars of FBs have suggested that one reason for the competitiveness of these firms might be in their unusual ability to develop long-lived customer relationships (Cooper *et al.,* 2005; Ward, 1997). It seems logical that FBs with longstanding customers may be better placed than non-FBs without such customers to develop public trust in the firm (Biberman, 2001; Stone, 2000), so that people may buy from FBs despite more convenient alternatives (Reichheld and Teal, 1996). Superior customer loyalty may then generate competitive advantage as new customers are also attracted to the FB by returning customers (*ibid.*). Customer relationships in FBs may provide a unique competitive advantage where customer loyalty has been cultivated over generations of continuous owner-management (D'Aveni, 1994). Closer knowledge about their preferences can then feed into more accurate knowledge about the business (Ashley-Cotler and King, 1999).

Yet, despite this research, few studies have explored how FBs strengthen their business through better customer relationships. Specifically, we do not know how long-term customer relationships may offer competitive advantage for small FBs (Sharma *et al*., 1996). Our research therefore sought to plug this gap by exploring how owner-managers of a sample of small and competitive FBs built knowledge about their business through their customers. We argue that better knowledge about the FB's strengths may be reflected in well-chosen products and services that match their customers' preferences. If small FBs hold a competitive advantage, we should find that they are able to more accurately match their products/services with customer preferences compared with non-FBs. This ability to apply knowledge from customers about the business in order to better compete in the business may represent an important competitive advantage of small FBs (Habbershon, 2006).

We believe that an understanding of how small FBs achieve competitive advantage through customer relationships may be gained from the extensive literature on perception. We draw on a particular strain of this literature, namely that of tacit knowledge, in addressing this issue. Specifically, if a firm's intuitive perception of customers helps it to understand its own strengths and weaknesses, then the firm's customer knowledge may become a highly proprietary source of knowledge- its tacit knowledge- for the firm to also build uniquely competitive strategies (Elsbach, 2006; Rookes and Willson, 2000).

The role of perception in small family businesses

Perception is a process by which people select, organize and interpret their perspectives of the world based on their individual experiences (Elsbach, 2006; Solomon, 2007). 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).

Studies have sought to understand how individuals perceive reality (Elsbach, 2006; Leary, 1996). The psychology literature has developed two main theories of perception. The first theory, *Passive Perception* (Descartes, 1641/1969), involves a linear sequence of events, from external influence to input (senses), then to the processing of inputs (use of the brain), and to output (reaction). The second theory, *Active Perception* (Gregory, 1966), suggests that a linear sequence is impossible because a dynamic relationship exists in the brain between description, senses and surroundings. In a small business context, Gregory's notion of a dynamic relationship between distinctive cerebral functions means that managers and customers may develop "concordance" in their perceptions of the world in which they live through regular face-to-face interaction where all parties share their everyday experiences, their likes, and their dislikes. Typically therefore, a small FB that has been established in a local market will relate well with local customers with whom successive managers have gotten to know well (Carrigan and Buckley, 2008; Cooper *et al.*, 2005). It is not then surprising when such FBs serve their customers in the way that those customers want (*cf.* Danes *et al.*, 2009). By contrast, developing relationships with small groups of customers would seem impractical for a superstore chain serving the general population, where in forging a consistent selling strategy across the chain, superstore managers tend to rely on point-of-sales technology to stock up (Ziliani, 2000). This typically results in the superstore offering a large, generic range of products for the convenience of all customers (Song and Adams, 1993).

Tacit knowledge and competitive advantage in small family businesses

A small FB may also relate well with new customers if it possesses tacit knowledge. Tacit knowledge is knowledge that is personal and based on individual experience (Nelson and Winter 1982; Polanyi, 1966). While explicit knowledge may be shared in speech or in writing, tacit knowledge cannot be adequately articulated. Tacit knowledge may facilitate a firm's ability to draw in both old and new customers where it enables the firm to generate new, competitive ideas based on its stored knowledge of customers in its market (Ichijo *et. al.*, 1998; Nonaka and Takeuchi, 1995). Based on this view of tacit knowledge, small FBs may compete in markets that they know well by signalling their business strengths to customers *and* by demonstrating that certain business strengths suit their buying preferences. Such successful signalling may be achieved by an ongoing process of customer feedback and informed action. Existing customers feed their buying preferences back to owner-managers through regular, personal interaction, and managers then channel their tacit knowledge of customers' preferences in *anticipating* products and services that their customers may want. New customers may then join this feedback process- and thereby contribute to the tacit knowledge of owner-managers- when they pick up signals from existing customers about the feedback process that produces well-chosen products that also seem to suit their own taste (*cf.* Hausman, 2005; *cf.* McAuley *et al.*, 1997). This view of tacit knowledge in small FBs is consonant with its nature as an interactive process among parties with different levels and types of knowledge (Nelson and Winter, 1982; Salomann, 2005; Tsoukas, 2003).

Small FBs may also remain competitive when one generation of owner-managers passes its tacit knowledge to the following generation (Sharma, 2004). Here, FBs might be better at transferring tacit knowledge as closely-knit family managers typically trust one another (Haldin-Herrgard, 2000). In turn, trust generated over time may allow constructive feedback of one another's activities, and this may help the development of tacit knowledge in following generations (Habbershon, 2006). Tacit knowledge may therefore be found in small, long-lived FBs because it is personal and takes time to develop (Herbig *et al*., 2001; Patel *et. al*., 1999). More tacit knowledge of customers may then contribute to closer, more intuitive perception of customers' preferences by an FB's owner-managers (Dessi & Floris, 2010). This literature suggests that where owner-managers possess an intuitive perception of their customers' preferences, then this would be reflected in managers and customers holding the same perception of the FB's business strengths (*ibid.*). We now draw on our research to develop this view.

Method

Research Context

Our four cases comprise two small FBs (Litz, 1995[3]) and two larger non-FBs in Sardinia, which has a long history of both FBs and non-FBs. Sardinia offers an interesting context of study for two reasons. First, the research context is well-defined as family and non-family businesses compete head-on a) all year-round, and b) in a retail market with a stable local population[4] that is augmented by summer tourism. These features of the local market allowed us to administer our research to both residents and tourists. We believe that this mixed sample of respondents strengthened our findings as they did not rely on a single customer base (Petersen and Rajan, 2002; Stavrou, 1999). Equally, the stable population of anchor customers allowed us to compare the perceptions of managers and customers based on regular 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 (http://www.regione.sardegna.it). This growth has attracted international superstores who have established a local presence. Yet superstores have failed to dislodge a number of local FBs. The ongoing competitiveness of these FBs- who operate several outlets and are substantial businesses- seems at odds with urban studies suggesting how superstores have caused the demise of small retailers in Western Europe (Audretsch, 1995; Coca-Stefaniak *et al.*, 2005).

[3] In FBs "ownership and management are concentrated within a family unit, and... its members strive to achieve, maintain, and/or increase intra-organizational family-based relatedness" (Litz, 1995, p. 78).
[4] Sardinia' s website suggests that the island's population in 2009 was 1.7 million, with 10% living in Cagliari.

Two family businesses
We studied two small FB retailers that have remained competitive for many years. Following Litz (1995), we selected our sample on the basis of multi-generational family owned and managed businesses. Our FBs employed 50-100 staff and sales were below 50m Euros per annum. Yet both FBs have competed and grown locally, Succa Snc[5] (http://www.succa.it), in books and stationery, and Putzolu Snc, as a bakery-breadshop[6]:

Succa was founded by Sergio Succa in 1959 in Sardinia's capital, Cagliari. His four sons inherited the business in the 1990s and continue to run it. The bookstore has continued to stock a limited range of popular novels and other books that it changes regularly based on what it believes its customers want. Contemporary products such as DVDs and electronic gadgets are also stocked, but these are again limited to specific titles and brands.

Putzolu was founded in 1948 and is now in its third generation of owner-management. It produces and sells a range of popular, handmade breads with a distinctive taste. From its base in Serramanna, the FB has expanded its bakery and breadshop business to two other towns in Sardinia. While Putzolu competes in a relatively stable business, it has more competitors than Succa. Putzolu has responded to competition by improving the distinctiveness and quality of its range of breads and by raising volume without significantly increasing its variety of breads.

Two non-family businesses
The principal competition for both Succa and Putzolu has been from two much larger and newer non-FBs from outside Sardinia. Although these two non-FBs are separately managed, they belong to an international chain of superstores, the **E.Leclerc** group. This

[5] Succa suggests that it is the oldest bookshop in Sardinia, focusing on special interests such as martial arts.
[6] A Serramanna district news website suggests that Putzolu is a "prominent example" of the area's businesses (http://www.aserramanna.it/sardegna/).

group is part of the larger conglomerate of Conad-E.Leclerc with over 32,500 employees in 30 "hypermarkets" in Italy[7]. Conad superstores have been operating in Sardinia since the early 1980s. The Conad bookstore and bakery business compete, respectively, with Succa and Putzolu, where the bookstore sells a large range of books and stationery, while the bakery makes and sells many varieties of bread[8].

Research design

The research design involved a mixed qualitative and quantitative research methodology to compare and contrast what managers and customers perceived to be the business strengths of each of four businesses. We first conducted structured interviews with managers and then drew on these interviews in developing walk-by questionnaires for customers as they entered or exited one of the four businesses. Details of our process of data collection and analysis were as follows:

<u>Data collection</u>

Our interviews were conducted with each of between two to four managers of the four busineses. For each business we developed an interview protocol with 11 questions (Appendix A). This data was augmented by company brochures and local news articles. A profile of the strengths of each business was then drawn from our interview data. With these profiles to hand we developed customer questionnaires for each of the four firms. Each questionnaire contained nine questions on customers' views of the business they were patronizing. Following questions on gender, age, profession, ease of transport to stores, and frequency of purchases in other stores, customers were asked to indicate how far their choice of store had been influenced by a number of specific features about each store (Appendix B). These features comprised the business strengths that had been

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[7] E.Leclerc-Conad group information: <http://www.conad.it/portal/public/the_e.leclerc_conad_network-e.leclerc_conad-la_rete-mondo_conad-CND-guest-656-3669.html>.
[8] Conad Sardinia: <http://www.conad.it/portal/public/trovaconad_risultati-guest.html?all=&zones=18&towns=CAGLIARI&areaRoma>.

mentioned by managers. For each feature we allotted a value on a Likert scale with five modalities- 1 (no influence), 2 (little influence), 3 (one of several reasons for my choice), 4 (a principal reason for my choice), and 5 (the only reason for my choice). To control for seasonality, the questionnaires were administered over several months to over 100 customers in each of four outlets.

Data analysis

With interview and survey data to hand, we coded interviews and survey data of each of the four businesses using the software “R” (R Development Core Team, 2009). This is an open source program environment for statistical computation that has been widely used as reference software (Vance, 2009). Coded data were then manually ordered on the basis of the strengths of each business as perceived by its managers and customers. Subsequently, the degree of concordance between perceptions was assessed by applying our PCI (Dessi and Floris, 2010), as follows:

Suppose that for a certain firm we have a perceptive concordance of j=1,2,…,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. We believe it would be misleading to provide, for example, the standard deviation (SD) observed on the PCI for each business strength (which we call "item" in our Tables) as there were multiple correlations among items, and the SD of each item may not have been 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 for each firm. Our computations also 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 instead of answers through replacement, as follows (bootstrap distributions and symmetry of the sampling are shown in Table 1 below):

Let X represent the matrix of answers suggested by many rows as the number of surveyed customers and many columns as the number of items under study. Instead of re-sampling, replacing each column and then analyzing them 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 this were a hypothetical enterprise. For a given X* we then calculated all perception indexes for all items as in Table 2. We generated 10,000 times our X* matrices, where for each set of PCIs we removed 2.5% of the smallest values and 2.5% of the largest. Hence the minimum and maximum 95% of 10,000 replications were obtained with a 95% confidence interval for our sample. Such confidence intervals reflect the variability of answers on a given item and account for correlations among several business strengths:

- Insert Table 1 Here -

From Table 1, we may see that for product range and parking there are, respectively, positive and negative concordances, and the variability of such concordances seems robust for us to suggest that this variability is positive *and* negative. In fact, their respective 95% confidence intervals- shown via dashed vertical lines- are both positive and negative. Furthermore, their respective median is shown as a bold vertical line and these are also positive and negative.

Findings

Table 2 summarizes our findings of firm strengths. This Table also shows the respective PCIs between managers and customers of each business 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:

- Insert Table 2 Here –

Table 3 summarizes and orders the sequence of FB strengths after adjusting for customer opinions. Asterisks highlight the change in the order of strengths:

- Insert Table 3 Here -

In Table 4, we present our PCI index that measured the average perceptive concordance for each strength highlighted by FB managers, with 95% confidence. Results suggest a strong, positive perceptive concordance in their views of the firm's strengths between managers and customers of the two FBs, while suggesting a *significantly weaker* perceptive concordance between managers and customers of the two non-FBs:

- Insert Table 4 Here -

In Table 5 we report the results of the PCI intervals so that we may generalize the preferences of 100 customers in each FB to our entire sample of over 400 customers. The intervals obtained, with bootstrap replications, from this table were consonant with results from Table 4, thus supporting the PCIs for our sampled firms. In order to minimize variability in data, we used multiple correspondence analysis (Venables and Ripley, 2002), where we related all our customer data with their responses to our questionnaires. No significant connection appeared from this:

- Insert Table 5 Here -

Based on our findings, the following picture seems to have emerged of management-customer relations in the four firms. In the two FBs, managers' perceptions of their firm's 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 in terms of their PCI: As Succa stocked only products that their customers sought, it was unsurprising 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 seemed to differ markedly (Table 2). 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 not really attracted by its wide product choice, parking facility, or production methods. Above all, they wanted 24/7 availability of fresh bread.

To support these assertions and to explore if there is a casual effect with the nature of the firm, we investigated the causal effect of a "familiarity" aspect (our shorthand for the "nature of the firm") on the values of our PI. We believe this is credible as we surveyed over 400 customers. Accordingly, let *alpha* be the difference among perceptions due to "familiarity", where we estimated Prob(alpha>0| for all available information) and the effect of familarity through the mean of alpha and its range with highest probability.

Estimating the causal effect, *alph*a, required us to estimate the answer of the same customer as if s/he had been surveyed in a firm which was the same as the surveyed firm, but with the familiarity attribute switched. The 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 a hypothetical answer that is usually referred to as the counter-factual value. Thus, we estimated which answer customers surveyed in an FB, *Yf*, would have given if the same customers had been surveyed inside a non-FB, *Ynf*; and vice-versa.

The difference between the two values was *alpha=Yf-Ynf*, and we expected this to be positive. As *Yf* and *Ynf* cannot both be observed on the same customer/s, we engaged Bayesian Additive Regression Trees (Leonti *et. al*., 2010) to estimate the counter factual values of all surveyed customers. Appendix C sets out the probability distribution of *alpha* based on our observed data.

Discussion

The distinctive nature of intuitive perception in small family businesses

Based on our findings, we suggest two specific contributions in understanding the ongoing competitiveness of small FBs in consumer retailing. First, the intuitive perception that owner-managers had of their customers seems a distinctive and valuable feature of our FBs. In terms of distinctiveness, both FBs' managers and customers appeared to share similar buying preferences, while in the two competing superstores, we observed significant divergence between the buying preferences of managers and their customers (RQ1). Managers of the two FBs seem to have communicated with their customers by responding quickly and accurately to their preferences. There was therefore a concordance between owner-managers and customers' perceptions in the two FBs. The concordance may have continued through regular interaction between owner-managers and their existing customers, and this proved valuable in the two FBs when customers were able to signal what products and services they sought based on their own lifestyle preferences and personalities, and not just on past purchasing habits. Here, electronic scanners normally pick up the latter but not either of the former (Ziliani, 2000), which may require face-to-face relationships between managers and customers (Cooper *et al.*, 2005).

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 perception of the "familiarity" 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), including their buying preferences. In this perspective, 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 and development, 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, with their particular products and other business strengths that both managers and customers identified, may have been the basis for the deep customer loyalty in our two FBs. It seems to follow that managers and customers of the two FBs listed products and service as being particularly important, and not convenience or price.

By contrast, our superstore managers sought to identify features *around* the business for their customers, such as convenient parking and the availability of a large variety of products, which their customers regarded as less important factors in their buying decisions[9]. Instead, our superstore managers seemed to be concerned about applying the superstore's knowledge of what was good for customers in other markets, as suggested by the managers' perceived importance of car parking. This was also the case with E.Leclerc's store location and its wide product range, both of which its managers perceived to be business strengths of E.Leclerc as a convenience superstore. We suggest that one reason why customers of the two superstores did not rate these factors as highly as their managers was because E.Leclerc's bookstore and breadshop had not developed as close an understanding of their customers as the two FBs.

Accordingly, our PCI findings suggest that managers of the two FBs were able to communicate *how* they perceived their business to their customers. This may be seen in the way that both Succa and Putzolu prioritized the sale of a high-quality, narrow range of products. Customers bought into this perception of the respective FB's business with its focused product strategy, and new and old customers continued to buy when managers improved the quality of their existing range of books and bread. This may represent a highly intuitive form of CRM in our two FBs where *both* managers and customers seem to

[9] As Maturana and Varela (1987) suggest, the *how* contains properties of the observer and constitutes what customers can strongly identify with, while the *what* holds properties of the observed phenomena and may constitute opinions about phenomena that the observer's audience may agree/disagree with, such as whether car parking is more or less a firm strength.

have offered feedback to one another by signalling their mutual preferences through a continuing process of product selection and buying in the store (Reichheld and Teal, 1996; *cf*. Tsoukas, 2003).

Such mutual feedback may then have played an important part in strengthening management-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- specifically, a higher perception index in FBs compared with non-FBs- suggests that the loyalty of our FBs' existing customers helped to attract new customers given the similar responses to our questionnaire from customers of the two FBs. By contrast, the greater variation in the responses of older and newer customers of our non-FBs suggests little connection in personal tastes among our respondents.

Tacit knowledge in developing competitive advantage

A second area where our findings have implications 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 it produced competitive advantage against their main superstore competitors. Close relationships between FB 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, Succa and Putzolu had been serving their 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 shared their tacit knowledge as members of a closely-knit group of owner-managers (Haldin-Herrgard, 2000). Owners' tacit knowledge of their customers then became a source of competitive advantage when it provided private information on improving the FBs' products and services for both old and new customers (RQ2).

Putzolu has therefore been able to improve the quality of its bread without compromising its distinctive taste. Similarly, Succa has continued its policy of stocking just those books that their customers want, where books in stock change in anticipation of new customer preferences, while the business approach of narrow stocking remains. The competitiveness of such FBs in local markets seems to be about remaining highly sensitive to the changing tastes of local customers, and the ability of Succa and Putzolu to remain competitive in an open market illustrates how small, long-lived FBs might satisfy this need better than superstores. This suggests that in consumer retailing, superstores may not always hold a competitive advantage over small, long-lived FBs where the former have a shorter-lived and weaker mutual understanding of their customers (Carrigan and Buckley, 2008; De Koning and Muzyka, 1998).

Conclusions

We know that in owner-managed businesses, the ongoing involvement of their founders can bring unique benefits to the FB (Danes *et al.*, 2009; Habbershon and Williams, 1999). In small FBs, we also know that in order to grow and develop, they must ‘play smart’ by focusing on developing relationships with core customers whose buying preferences they understand (Shim *et al.*, 2000). However, we know little about how owner-managed shops that sell everyday items may continue to compete against superstores that have set up locally. Here our research adopted a knowledge management perspective of CRM in extending CRM studies to High Street FBs by suggesting how these businesses may continue to compete by perfecting, rather than by transforming, their existing business approach. This perspective is based on owner-managers' deep knowledge of their business. A principal component of this knowledge seems to be in the owners' tacit knowledge of their customers (*cf.* Gibbert *et al.*, 2002). The FB's tacit knowledge may then become an important competitive tool when owner-managers are able to anticipate customers' needs and provide the exact products and services that suit their taste. A number of scholarly and managerial implications arise from our findings, as follows.

Scholarly implications

Firstly, our study has combined two strands of research that have normally been considered separate, namely, tacit knowledge and customer loyalty in small FBs. Specifically, we have suggested 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. Furthermore, strengthening the FB's business has also attracted new customers.

We believe that this view of competitiveness in small FBs based on the tacit knowledge of owner-managers in *anticipating* customer needs represents a new, more nuanced perspective of CRM in this form of organization. At first glance, owner-managers' practice of narrow-stocking seemed a high-risk strategy that left our two small FBs with little margin for error. In fact however, based on our PCI results, the FBs' action of stocking a discrete range of products seemed to follow a well-rehearsed process of customer feedback and informed action. This meant that owner-managers were able to strengthen their business by stocking just those products their customers sought. Old and new customers responded to the FBs by buying books and bread that had been selected for them, although the same book titles and the same types of bread might also be sold among many other products at the neighboring superstore.

That superstore, E.Leclerc, did not perceive their customers in the same way and used point-of-sales technology to offer more product variety, more convenience, etc. However, less seems to be more in the case of everyday, High Street products such as books and bread where personal taste matters. Based on our research context, mass-product stores might be less attractive for High Street customers of books and bread who are attracted to shops with products and services that suit their taste. We therefore suggest that:

Proposition 1a: Small, established FBs in consumer retailing may draw on their tacit knowledge of customers to strengthen their business by offering products and services that match customers' lifestyle preferences and personalities.

Proposition 1b: In response, customers will continue to buy consumer goods and services from FBs that provide what they seek *despite more convenient alternatives.*

Accordingly, **Proposition 2a**: Small FBs in consumer retailing will remain competitive against larger non-FBs by drawing on owner-managers' relationships with customers to anticipate their ongoing requirements.

Proposition 2b: The ability of small FBs to draw on their tacit knowledge of existing customers to strengthen their business may then form a powerful competitive advantage when small FBs are also able to draw in new customers based on their strengthened, more focused business.

Conversely, **Proposition 3**: Without engaging with individual customers, superstores might remain less competitive than small FBs in High Street businesses such as books and bread where personal taste matters.

In enhancing the FB's competitiveness, we may also suggest how our PCI represents a tool for 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 achieve competitive advantage in traditional businesses such as consumer retailing where change is rare, and a long-lived business reputation might be important in signalling product quality (Fombrun and Shanley, 1990).

Managerial implications

We believe that our comparison of managers' and customers' perceptions of firm strengths also offers useful information on how managers in both FBs and non-FBs may improve their tacit knowledge of customers. This is because:

Proposition 4a: Small FB managers in a single retail activity may draw on their tacit knowledge of customers to expand into other areas of consumer retailing.

Proposition 4b: It may also pay for superstores to develop tacit knowledge of local customers in anticipating their future needs.

A further managerial implication concerns the actions that all managers may take in response to our PCI results. In all four firms, we found a different order of preferences between customers and managers. One implication of this difference is that managers in both FBs and non-FBs may need to invest resources in a continuing process of improving areas that customers perceive as relative weaknesses based on their ordering of firm strengths, such as customer service. We believe that this implication may be especially important for superstores because their competitiveness in the High Street has depended on the sheer variety of products in stock (Chen and Popovich, 2003). Accordingly, **Proposition 5**: Superstores may compete better in the High Street where they develop a narrow-focus strategy that offers products and services that local customers seek.

Limitations and further research

We see a major limitation of our research in our small sample size. Data are required from a larger population of FBs and non-FBs in different environments to substantiate our observations. Secondly, as the organizational culture of small FBs is typically influenced by the values of their owner-managers (see, for example, 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-centered management, we anticipate that recruiting outside managers to replace family managers will produce PCI results that may become increasingly similar to those of the E.Leclerc outlets. We therefore suggest the following additional proposition for research:

Proposition 5: High Street FBs may lose their competitive advantage if they develop shorter-term ownership structures that constrain the FB's development of tacit knowledge.

Finally, we might pursue studies of different types of FBs (Sharma, 2004) in investigating how far the competitive advantage of long-lived, owner-managed FBs may represent a unique, generic feature of FBs. Our research has suggested the ability of small, long-lived FBs to retain customer loyalty in a single, non-complex industry. How far can FBs 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 also extend to larger FBs in considering how far there may be differences in perception between managers and customers based on owner-management and other features related to firm growth. These research streams address the broader question into which this study leads, namely, how far small FBs may draw on their intuitive perception of customers to grow and develop, rather than to remain small, owner-managed, and bound to stay at home.

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Appendix A: Specimen management interview protocol

We posed questions to each firm's managers to learn their views of their firm's business strengths. Questions were tailored to suit each firm.

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... We will then study your answers and compare them with the views of managers in 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, past and present.

6. Describe your main customers.

7. Why do you think customers buy from this firm?

8. Why would new customers want to buy from you?

9. What do you think are the main weaknesses of this firm?

8. How do you communicate with your customers?

10. What are you doing to improve your business? How would you further improve the business?

11. What are the main constraints to improving your business?

Appendix B: Specimen customer questionnaire

1) Gender, 2) Occupation, 3) Age?

4) How far do you live from [store name]?

5) How did you get to [store name]?

6) How often do you visit [store name]?

7) How often do you visit other [store names] in Sardinia?

8) How often do you visit [competitors' names] in Cagliari?

9) How far have the following features influenced your choice of stores (either positively or negatively)? Assign a score of 1 (no influence), 2 (little influence), 3 (one reason for my choice), 4 (a principal reason), and 5 (the only reason):

a) Parking space,

b) Location,

c) Stock,

d) Price,

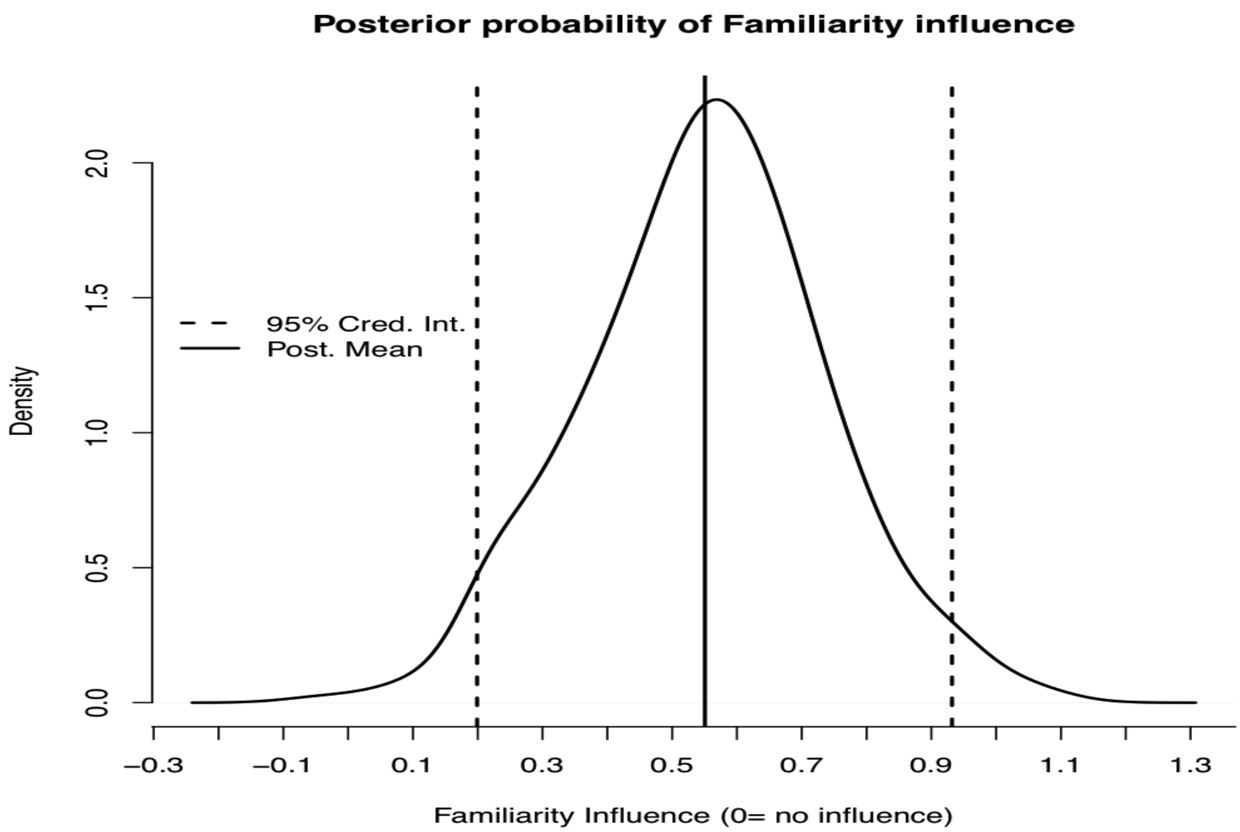
e) Service,

f) Business hours,

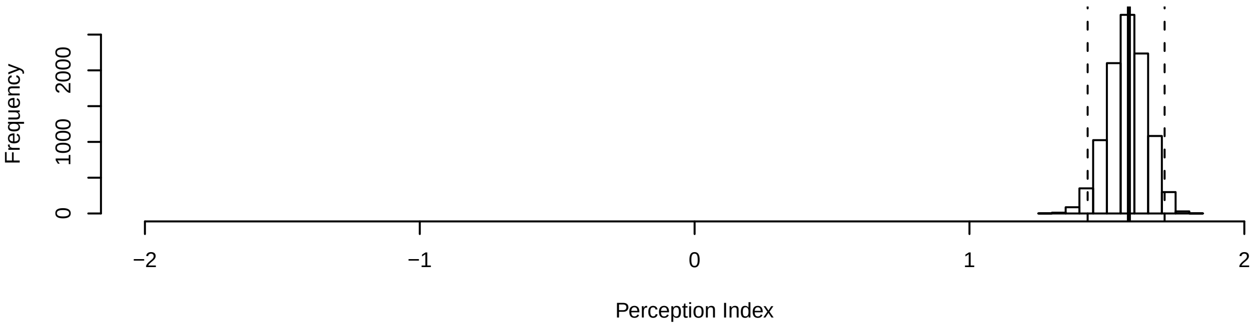
g) Timely delivery, and

h) Other feature(s)- please state.

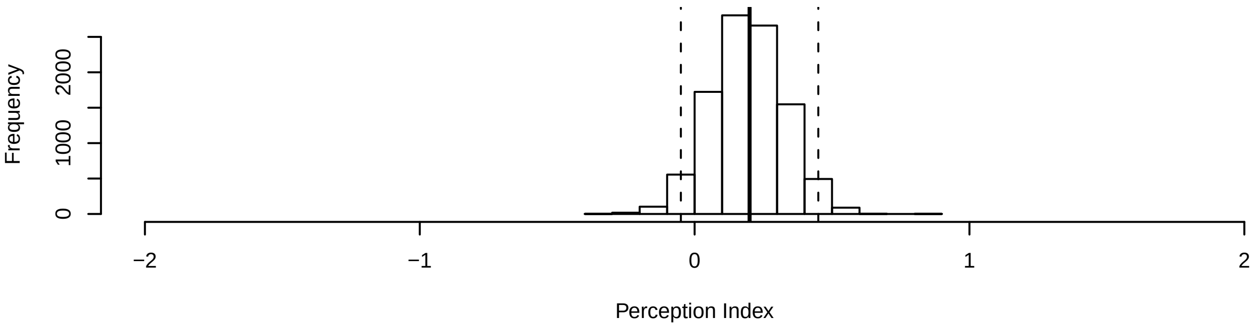
Appendix C: Posterior probability of familiarity influence



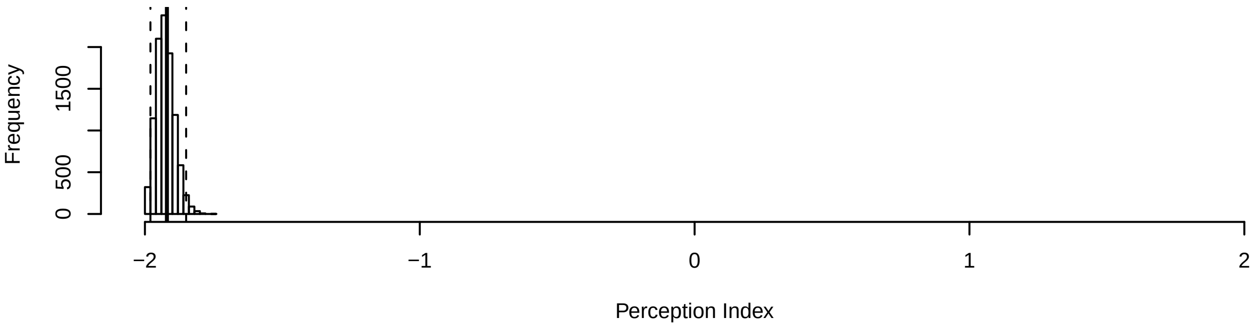
10000 Bootstrap replications of Product range Perception Index



10000 Bootstrap replications of Opening Hours Perception Index



10000 Bootstrap replications of Parking's Service Perception Index



Intuitive Perception and the Competitive Advantage of Small Family Businesses: An Exploratory Study

TABLE 1

[Bootstrap replications]

TABLE 2

Managers' perceptions of business strengths
Succa'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 inside 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 accord with those of their customers are as follows:

	PCI for interviewed firms													
FBs	*(1)*	***Ic***	*(2)*	***Ic***	*(3)*	***Ic***	*(4)*	***Ic***	*(5)*	***Ic***	*(6)*	***Ic***	*(7)*	***Ic***
Succa	Specific products	1,58	Service	1,09	Timely delivery	0,66	Opening hours	0,20	Location	0,09	Price□	-0,12	Parking□	-1,92
Putzolu	Service	1,98	Production methods	1,90	Product range	1,63	Opening hours□	-1,62	Location□	-1,84	Price□	-1,92	Parking□	-1,99
Non-FBs														
E.Leclerc Bookstore	Browsing facility	1,06	Price	0,44	Service	0,00	Parking□	-0,04	Sale□	-0,13	Product range□	-0,62	Location□	-0,90

E.Leclerc Bakery	Product avai-lability	1,02	Parking	0,65	Production methods	0,63	Price	0,45	Product range	0,43	Service	0,20	Location	-0,22

TABLE 3

FBs & Non-FBs	***Strengths and new ordering post-PCI computation & relative values***					
	(1)		***(2)***		***(3)***	
Succa	Specific products	1,58	Service	1,09	Timely delivery	0,66
Putzolu	Service	1,98	Production methods	1,90	Product range	1,63
E.Leclerc Bookstore	Browsing facility	1,06	Price	0,44	Location	0,00
E.Leclerc Bakery	Product availability	1,20	Parking	0,65	Production methods	0,63

TABLE 4

FBs & Non-FBs	***Overall index of perceptive concordance***
Succa	1,11
Putzolu	1,84
E.Leclerc Bookstore	-0,10
E.Leclerc Bakery	0,15

TABLE 5

FBs & Non-FBs	*Managers' perception of firm strengths, relative index of perceptive concordance, and related bootstrap confidence intervals*								
		Ic	***Bootstrap Confidence Intervals at 95 percent***		***Ic***	***Bootstrap Confidence Intervals at 95 percent***		***Ic***	***Bootstrap Confidence Intervals at 95 percent***
Succa	Specific products	1,58	1,45 1,71	Service	1,09	0,88 1,28	Timely delivery	0,66	0,41 0,91
Putzolu	Service	1,98	1,95 2,00	Production methods	1,90	1,84 1,95	Product range	1,63	1,52 1,73
E.Leclerc Bookstore	Browsing facility	1,06	0,78 1,43	Price	0,44	0,06 0,90	Location	0,00	-0,327 0,400
E.Leclerc Bakery	Product availability	1,20	-0,750 0,017	Parking	0,65	0,283 1,00	Production methods	0,63	0,383 0,867