

How to Successfully Internationalize SMEs from the CEE Region: The Role of Strategies of Differentiation and Education

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Abstract

Purpose: The purpose of the paper is to better understand why some SMEs who pursue a niche strategy on the international scale are more effective with a differentiation via innovation while others with marketing differentiation.

Methodology: Therefore, the paper studies the effectiveness of different points of differentiation (innovation, marketing) of hidden champion type of companies: (1) from the perspective of the unknowns of the key success factors in the specific market segment, and (2) from the perspective of the professional mindset/education of the strategist.

Findings: The results show that differentiation via innovation positively impacts firm performance when there are many market unknowns over key success factors, whereas marketing differentiation positively impacts firm performance when there are few market unknowns over key success factors. On the other hand, when top management earns a business education, the impact of marketing differentiation on firm performance is significant, positive, and strong. The effectiveness of differentiation via innovation does not depend on education.

Research limitations/implications: These results mostly consider the hidden champion type of companies, which prefer not to reveal themselves or their data to the public. The transferability of this research is thus limited.

Originality/value: This paper studies the hidden champion type of companies, which usually receive little attention from researchers, through the lens of differentiation via innovation and marketing differentiation as two distinct ways of competing as their effectiveness is contingent on the market unknowns.

Keywords: market positioning, differentiation via innovation, marketing differentiation, key success factors, management education

JEL: D40, D80, C21

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Introduction

Competitive and robust economies possess internationally competitive “Mittelstand” companies (Simon, 1996a; 2009), which make them more resilient to economic and financial shocks. The patterns of success are usually more diverse for smaller firms than bigger companies (Bottazzi et al., 2007). Their business strategies are more emergent, bottom-up, and cognition dependent (Mintzberg, 1994; Gavetti and Rivkin, 2007). Successful SMEs usually exhibit the strategy of differentiation in niches (Lee, Lim et al., 1999; Leitner and Guldenberg, 2010). We need to take a closer look to see how a specific generic business strategy results in international success under different conditions (Lee, Lim et al., 1999; Lee, Lim et al., 2001; Parnell, Lester et al., 2012).

Thus, in this paper, we focus on Porter’s generic strategy of differentiation in niches, which most frequently underlies the success of SMEs. We explore how and why the two different points of differentiation suggested by Miller (1988) contribute to the competitive success of SMEs on an international scale: differentiation strategy via innovation and differentiation strategy via intensive marketing. This framework is useful because it adds an extra layer of differentiation, innovation versus marketing, while remains relatively simple and comprehensible. Moreover, this framework is under-researched in the SME setting. The strategy of differentiation via product innovation strives to create the most up-to-date and attractive products by surpassing competitors in quality, efficiency, design innovations, or style. The strategy of marketing differentiation and image management attempts to create a unique image for a product through marketing practices and requires that managers have a good understanding of customer preferences.

However, to bring the study closer to reality, we also use the notion of contingency, which relativizes the success of every strategy with the context in which it emerges (Chandler, 1962; Burton and Obel, 1998; Donaldson, 2001). Within that perspective, we focus our attention on two sorts of conditions that we presume significantly shape the effectiveness of different points of differentiation of SMEs on an international scale: (1) the external condition of market unknowns over the key success factors in the specific market segment or wider (Burns, 2010); and (2) the internal condition of the professional mindset/education of strategy-makers, which constitutes the lens through which they view the world (Schein, 1983; Hambrick and Mason, 1984; Wally and Baum, 1994; Herrmann and Datta, 2002).

Thus, the research question is twofold: (1) how different points of differentiation – marketing, innovation – affect the firm’s performance when juxtaposed with different

levels of unknowns over the key success factors on the market; and (2) how professional mindset and education of top management moderates the effectiveness of differentiation via innovation and marketing differentiation.

In the study, we focus on the 'hidden champion' type of firms (Simon, 1996a; 1996b; 2009). The hidden champions are companies that hold the ranking of number one, two, or three in the global market or number one on the company's continent, as determined by market share. Furthermore, the hidden champions hold revenue below \$4 billion; and are relatively unknown to the public because they specialize in narrow market niches in the B2B business segments. In Porterian terminology (Porter, 1980), the hidden champions follow a differentiation strategy that bases on narrow product focus, depth with backward integration down the industry value chain, and growth through internationalization (Simon, 1996a).

How the hidden champions achieve and sustain international success followed the Simon and Kutcher consulting company. However, this approach is weakly rooted in strategic thought and theory (Schlepphorst et al., 2016; Witt and Carr, 2013). The most natural grounding would be between the positioning and emergent school of strategic thought (Gavetti and Rivkin, 2007).

Furthermore, the past study was mainly (though repeatedly) conducted in the German-speaking countries, which hold different economic and political regimes than countries from the Central and Eastern Europe. This context forms different unknowns, not only for the evolution of markets and companies but also the evolution of education systems and strategy-makers' mindsets (Williamson, 2000). Since CEE history of the political and economic context substantially deviates from the German one, we expect that the strategic unknowns and behaviors of the CEE hidden champions may deviate from the strategic unknowns and behaviors of their German-speaking counterparts (Pissarides, 1999; Bartlett and Bukvič, 2001; McKiernan and Purg, 2013).

Thus, we see opportunity to develop the field by studying the differentiation points of the CEE hidden champions in three areas: (1) the quantitative inquiry into the effectiveness of differentiation from the perspective of strategic unknowns and professional mindset/education of the strategist; (2) the search for missing links between the positioning and emergent school of strategy by linking points of differentiation with a set of novel contingencies (strategic unknowns, education of strategist); and (3) the shedding of light on the subgroup of CEE hidden champions, characterized by a unique economic-political history in the period after the Second World War and until the fall of the Berlin wall.

By revealing the conditions of effectivity of certain differentiation points (innovation, markets), the study is valuable and important not only for the scholars of strategic behavior of SMEs and internationalization but also the educators, consultants, and managers-practitioners who need a better navigational map to bridge the competitiveness gap of SMEs in a specific context.

The paper comes in five parts. The first is this introduction. The second section briefly reviews the literature on strategy, differentiation, market characteristics, and segmentation, all viewed from the point of education and strategic differentiation focus. The section ends with a set of four hypotheses between differentiation via innovation, marketing differentiation, performance, market unknowns, and the strategic leader's education. The third part outlines the research method, which includes information on the measuring of variables and the sampling and gathering of data. The fourth part analyzes the results of the research. We discuss the findings in the fifth section along with the contributions, implications, and limitations of the study. The paper ends with a summary.

Theory and hypothesis

SMEs mostly follow the strategy of differentiation (Lee, Lim et al., 1999; Leitner and Gldenbergl, 2010). The business strategy of differentiation succeeds when it implements distinct, valuable, and difficult-to-imitate elements in the corporate value chain (Porter, 1980; Porter, 1985; Barney, 1991). SMEs successfully differentiate when their niches discourage the competitors (Gimeno, 2004). SMEs have fewer resources than bigger firms which significantly constrains the former in the process of internationalization (Lu and Beamish, 2001).

The differentiation strategy is expensive because it requires substantial investments of scarce resources in the development of differentiation points (Bower, 1986). Should a company have a fine-grained strategic differentiation focus either on innovation or marketing differentiation, it improves the economic use of its scarce resources and, thus, overall performance (Miller, 1988; Lee and Miller, 1996; Verhees and Meulenberg, 2004; Al-alak and Tarabieh, 2011). To be effective and efficient in the resource allocation process, one needs to know where, when, and how to invest the scarce resources to create the best effect towards reaching the strategic and growth goals (Bower, 1986). Accordingly, the strategy of marketing differentiation requires investments in the (re)formation of consumer perception while aiming to achieve the effect of increased brand loyalty and decreased price elasticity of demand for the firm's product (Hill, 1988; Miller, 1988).

The strategy of differentiation via innovation shapes the physical and psycho-social product attributes while aiming to broaden the appeal of the product, improve and change its functionality, capture more of the market volume, and improve the cost markup.

In contrast, investments in either the differentiation via innovation or marketing differentiation create certain effects. These effects can improve the firm's effectiveness, which depends on the competition, market saturation, increasing market stagnation (Miller, 1982; Tushman, Newman et al., 1986; Klepper and Graddy, 1990), market (environmental) dynamics and change (Duncan, 1972; Burton and Obel, 1999), and market unknowns over the key success factors (Leidecker and Bruno, 1984; Gavetti, Levinthal et al., 2005).

Past research puts the niche differentiation strategy in two types of markets: (1) mature markets, and (2) markets at birthing stage (Miller, 1982; Anderson and Zeithaml, 1984; Tushman, Newman et al., 1986; Klepper and Graddy, 1990; Parrish, Cassill et al., 2006). The two types exhibit different insight and knowledge over key success factors (Gavetti, Levinthal et al., 2005; Knight, 1957). Scholars characterize birthing markets by a lack of knowledge over the key success factors (Anderson and Tushman, 1990; Malerba, 2006) and mature markets by better predictability and oversight over the key success factors (Hanson, 2005; Zeithaml and Zeithaml, 1984; McGahan and Silverman, 2001).

Past research shows that innovative explorations of novel products, technologies, and business models are the most advantageous strategic approach in markets at the birthing stage because they can better resolve the many unknowns over the key success factors (Gavetti, Levinthal et al., 2005; Malerba, 2006; Anderson and Tushman, 1990). The greater the number of innovations, the greater the chances of coming up with the right solution. Differentiation via innovation thus fits markets with many unknowns over the key success factors. Past research also argues that investments in marketing differentiation pay off in the environment of more mature markets and more established key success factors, which form the firms' effective performance (Parrish, Cassill et al., 2006; Zeithaml and Zeithaml, 1984). Therefore, we expect the following moderating effects:

H1a: Differentiation via innovation positively impacts firm performance when there are many unknowns over the key success factors on the market.

H1b: Marketing differentiation positively impacts firm performance when there are not many unknowns over the key success factors on the market.

Whether the firm successfully pursues differentiation via innovation or marketing differentiation is substantially shaped by the mindsets of top management. What shapes the mindsets are family values, upbringing, schooling, and early work experience (Turnbull, 2011). The mindsets of core-decision makers form much stronger influence in SMEs than bigger firms (Weiner and Mahoney, 1981; Miller and Toulouse, 1986; Parnell, Lester et al., 2000; Randøy and Goel, 2003). The hidden champions are an example of mostly family-owned SMEs, in which founders often have a seat on the management board (Simon, 1996a; Simon, 2009; McKiernan and Purg, 2013).

In general, the demographic characteristics of top management influence strategy selection and performance (Hambrick and Mason, 1984; Carpenter, Geletkanycz et al., 2004); that is, the management's professional identity and education play the key role (Trede, Macklin et al., 2012; Datta and Rajagopalan, 1998). Many researchers particularly concentrated on the effects of education on the selection and effectiveness of the strategy of differentiation (Wiersema and Bantel, 1992; Wally and Baum, 1994; Datta and Rajagopalan, 1998) and they have found that the differentiation strategy is positively associated with a CEO's educational level. The higher the level of education, the greater the likelihood of employing the strategy of differentiation. However, most scholars did not consider the type of higher education in their studies.

On a most generic level, we may divide higher education into either technical-engineering or management-business focused. In their study of strategy selection and the performance of MBAs and top technical-engineering managers, Mallick and Chaudhury (2000) find that those with both types of education make the best strategic decisions. Furthermore, Mallick and Chaudhury reveal that technical-engineering education contributes to the quality of strategic decisions differently than business education. Nevertheless, Mallick and Chaudhury suggest that how these qualitative differences are played out should form an avenue of future research. In this paper, we presume that education forms different professional identities which shape the strategic preferences of top managers. We presume that managers with business education prefer the marketing differentiation while managers with technical-engineering background opt for the differentiation based on innovation.

H2a: The business education of top management positively moderates the relationship between marketing differentiation and firm performance.

H2b: The technical education of top management positively moderates the relationship between differentiation via innovation and firm performance.

Research Methodology

We tested the hypotheses with several statistical approaches. We combined the original measured variables based on the results of the exploratory factor analysis (Dillon and Goldstein, 1984; Field, 2000; Lattin et al., 2003) and with the use of the simple moderation model with a dichotomous moderator (Hayes, 2013). We made all analyses with the program IBM SPSS Statistics, Version 21, using the Process add-on (Hayes, 2013).

Sample and data gathering process

The sample of this study focused on the international niche market leader type of companies from Central and Eastern Europe. We identified them according to Simon's (2009) diagnostic questionnaire for the hidden champion company types. These companies have (1) the number one, two, or three ranking on the global market or a number one on the company's continent, or at least in the CEE region as determined by market share; (2) revenue below \$4 billion; and (3) a low level of public awareness. They successfully follow the strategy of differentiation in narrow niche segments on an international scale (Porter, 1985).

The sample included the following countries: Albania, Belarus, Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Macedonia, Poland, Romania, the Russian Federation, Serbia, Slovak Republic, Slovenia, Turkey, and the Ukraine. Overall, thirty-two field researchers from eighteen countries identified 112 hidden champions (HCs). In the process, the field researchers carefully scanned various sources of information, ranging from national to international statistical reports, economic studies, databases and networks of research and education institutions, business rankings, journal articles, business magazines, constancy reports, information available through ministries, chambers of commerce, and other public bodies. The field researchers then requested to interview the CEOs of the identified HC companies with the use of the semi-structured approach, making sure that they cover all the topics listed in Simon's diagnostic questionnaires via in-depth conversations (Simon, 2009). They conducted the interviews in the mother tongues of the CEOs. After the interviews, the field researchers completed the data in Simon's diagnostic questionnaire translated into each language. To assure appropriate translations of the original Simon's diagnostic questionnaire, the field researchers participated in a workshop, organized by CEEMAN in February 2012, on how to identify the companies, gain the interviews, and assure the reliable data with the use of Simon's diagnostic questionnaire. After the CEOs or other members of the top management office approved

the questionnaires, the researchers from different countries filed the data in an Excel datasheet shared via DropBox.

The sample of HC companies carries considerable variability regarding industry, size, and age. Companies in the sample come from the following industrial sectors: manufacturing of machinery and equipment, chemicals, electrical, electronic industry, paper industry, transportation, automotive industry, steel industry, food industry, textiles, ICT and nano-tech, consumer products production, and pharmaceutical products. Their size varies significantly: the number of employees ranges from a minimum of one to a maximum of 185,000 employees, with the average of 2,720 employees, sample standard deviation of 17,536 employees, and median of 297.5 employees. The youngest firm in the sample is three years old, the oldest is 140 years, the average is twenty-five years, the standard deviation is twenty-two, and the median is nineteen. Due to missing values, we used only ninety-two units in the regression analysis which explores the conditional effect moderated by market unknowns, and we included 102 firms in the analysis which explores the conditional effect moderated by business or technical education.

Dependent variables

We measured firm performance (FP) by the second order construct of six overall performance indicators derived from Simon's (2009) diagnostic questionnaire, including: competitive position (CP), growth (GRW), profit (PRF), assurance of survival in the market (SM), overall satisfactory (OPS), and performance through recession (PRI).

Each company CEO was to assess his/her overall satisfaction with six performance indicators in the last decade (2000-2010). The study used a seven-point Likert scale ranging from 1 – “not satisfied at all” to 7 – “completely satisfied.” We decided for the subjective measure of performance because of the limited availability of objective performance measures, which the CEOs reported less willingly than the subjective performance satisfaction measures. Previous research confirmed that subjective performance measures are reliable and valid substitutes for objective measures of a firm's economic performance, should the latter be unavailable (Dawes, 1999). The subjective performance measures are more reliable replacements for objective measures like ROA and sales growth when composed into a second-order construct of several indicators (Dawes, 1999). The above six indicators closely follow the Dawes's (1999) recommendations on constructing reliable subjective performance measures. Moreover, the second-order performance construct significantly simplifies the model and analysis.

We also checked the construct validity with exploratory statistics. The Appendix (Tables A1 and A2) presents descriptive statistics, bivariate linear correlations, Cronbach's alpha, and the results of the Factor Analysis. There are significant correlations between the measured variables, and the value of Cronbach's alpha is high (0.863). Based on the result of the FA (see Table A2 in the Appendix), we calculated the following construct as a measure of firm performance (FP):

$$FP = \text{MEAN} (CP, GRW, PRF, SM, OPS, PRI)$$

Independent variables

We wanted to observe how the differentiation via innovation and marketing differentiation influence firm performance. Following the assessments of Miller (1988) and Hagedoorn and Cloudt (2003), we appraised the instrument differentiation via innovation by research and development (R&D) costs as a percentage of sales, standardized to range over a 7-point scale (RD), and four more indicators to which we applied the 7-point Likert scale: frequency of product-service innovation (INN), tendency to be ahead of competitors in product novelty (PRODN), relatively higher quality products than competitors (QUAL), and relatively more patents than competitors (PAT).

$$DvI = \text{MEAN} (RD, INN, PRODN, QUAL, PAT)$$

We assessed the marketing differentiation via three indicators (Miller, 1988): professional marketing (PM), prestige pricing relative to competitors having lower pricing in general (PRC), and positioning in the unique market segment (MAR). All three items were assessed on the seven-point Likert scale from 1- "very weak" to 7-"very strong."

$$MD = \text{MEAN} (PM, PRC, MAR)$$

Appendix in Table A3 and Table A4 presents descriptive statistics and bivariate linear correlations between measured variables for each of the constructs.

Moderators

We selected market unknowns (MU) as a dichotomous variable with “0 – there is a very high level of unknowns over the key success factors because market/niche is in the (trans)formation stage with highly unstable demand” to “1 – there is a very low level of unknowns over key success factors because market/niche is in a fully-formed and mature stage with stable patterns of demand.”

Since we are further interested in how the business education of the management moderates the impact of the marketing differentiation on firm performance, and how the technical education of top management moderates the impact of the differentiation via innovation on firm performance, we use two additional dichotomous moderators: business (LEDUbus) and technical education (LSEDUtech), meaning LEDUbus = 0 when top management holds no business education and LEDUtech = 0 when top management holds no technical education.

Analysis and results

1. Observing the effects of marketing differentiation and differentiation via innovation on firm performance

In the first part of the study, we observed how market unknowns (MU) over the key success factors moderate the effects of marketing differentiation (MD) and differentiation via innovation (DvI) on firm performance (FP; testing hypotheses H1a and H1b). Due to missing values of variables, we made regression analyses on data from CEOs from 92 firms.

We used a simple moderation model with a dichotomous moderator, Market Unknowns (MU), to test our hypothesis about the conditional effect of deviation via innovation (H1a), and of marketing differentiation (H1b), on firm performance at different levels of market unknowns (Hayes, 2013).

Table 1 presents the conditional effect of differentiation via innovation (DvI) on firm performance (FP) at different levels of market unknowns (MU); there, we see that the effect is positive (with regression coefficient 0.296) and significant (with $p = 0.032$), if market unknowns are high (MU = 0). If market unknowns are low (if MU = 1), the observed conditional effect of DvI on FP is smaller and not even statistically significant.

Table 1. The effect of differentiation via innovation (Dvi) on firm performance (FP) at different levels of market unknowns (MU)

	MU = 0 high level of market unknowns over key success factors		MU = 1 low level of market unknowns over key success factors	
	Effect (b)	p	Effect (b)	P
Dvi Differentiation via innovation	0.296	0.032**	0.148	0.176

Note: * $p < 0.1$, ** $p < 0.05$

This confirms the hypothesis H1a.

Table 2 presents the conditional effect of marketing differentiation (MD) on firm performance (FP) at different levels of market unknowns (MU); there, we see that the effect is positive (with regression coefficient 0.146) and significant (with $p = 0.077$), if market unknowns are low (MU = 1). If market unknowns are high (if MU = 0), the observed conditional effect of MD on FP is very similar but not statistically significant.

Table 2. The effect of marketing differentiation (MD) on firm performance (FP) at different levels of market unknowns (MU)

	MU = 0 high level of market unknowns over key success factors		MU = 1 low level of market unknowns over key success factors	
	Effect (b)	p	Effect (b)	p
MD Market differentiation	0.151	0.273	0.146	0.077*

Note: * $p < 0.1$, ** $p < 0.05$

This confirms the hypothesis H1b.

2. Observing the influence of CEOs education on the relationship between marketing differentiation, differentiation via innovation, and firm performance

Here, we examine if the education of top management shapes the relationship between different points of differentiation and firm performance. We presume that the CEO's business education (LEDUbus) positively moderates the impact of marketing differentiation (MD) on firm performance (FP) while the CEO's technical education (LEDUtech) positively moderates the effect of the differentiation via innovation (DvI) on firm performance (FP). Put differently, we hypothesize (H2a) that the impact of marketing differentiation (MD) on firm performance (FP) works better when the top management holds a business education and that the impact of the differentiation via innovation (DvI) on firm performance (FP) works better when the top management holds a technical education (H2b).

We verified the hypothesis H2a with the use of moderation with the dichotomous variable LEDUbus as moderator. Table 3 presents the conditional effect of marketing differentiation on firm performance moderated with the CEO's business education; there, we see that the effect is positive and significant with $p=0.004$ if the top management holds a business education (LEDUbus = 1). However, if the top management has no business education (LEDUbus = 0), the effect is much smaller and not even statistically significant. This finding agrees with our inference that marketing differentiation is preferred and more successfully implemented when managers hold a good business education.

Table 3. The effect of marketing differentiation (MD) on firm performance (FP) when top management doesn't hold and when it holds business education (LEDUbus)

	LEDUbus = 0 No business education		LEDUbus = 1 With business education	
	Effect (b)	p	Effect (b)	p
MD Market differentiation	.081	.884	.384	.004***

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

This confirms the hypothesis H2a.

We verified the hypothesis H2b with the use of moderation with the dichotomous variable LEDUtech as moderator. The moderation of the CEO's technical education on

the relationship between differentiation via innovation (DvI) and firm performance (FP) is negative (regression coefficient of the interaction term is -0.207) and not statistically significant (with $p = 0.245$). The observation of the conditional effect of technical education (LEDUtech) on firm performance (FP) shows that the impact of differentiation via innovation (DvI) on firm performance (FP) is positive and statistically significant in both cases; that is, the impact is higher when the CEO has no technical education (see Table 4).

Table 4. The effect of differentiation via innovation (DvI) on firm performance (FP) when top management doesn't hold and when it holds technical education (LEDUtech)

	LEDUtech = 0 No technical education		LEDUtech = 1 With technical education	
	Effect (b)	p	Effect (b)	p
DvI Differentiation via innovation	.440	.002***	.233	.037**

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Therefore, the analysis does not confirm our hypothesis H2b. In our sample, the impact of differentiation via innovation (DvI) on firm performance is stronger when the CEOs do not hold technical education.

Discussion

We studied the effectiveness of different points of differentiation (innovation, marketing) from two perspectives: (1) from the perspective of the unknowns of the key success factors in the specific market segment, and (2) from the perspective of the professional mindset/education of the strategist. More specifically, the research assumed that the differentiation via innovation positively impacts firm performance when there are many unknowns over the key success factors on the market while the marketing differentiation does not significantly impact the firm performance under such settings. Furthermore, the study also assumed that the business education of top management positively moderates the relationship between the marketing differentiation and firm performance while the technical education of top management does not positively moderate the relationship between the differentiation via innovation and firm.

The research results reveal that the point of differentiation does matter when a company faces a different level of unknowns over the key success factors in the market. On average, in a situation of many unknowns, company performance will significantly improve if it tries to differentiate from competitors via innovation. However, if in such situation the company tries to differentiate from competitors via marketing, it may not necessarily result in performance improvement. Investments in marketing differentiation pay off more when the market is more mature, and the key success factors are well established. This paper's contribution links the deterministic school of strategy with the emergent school of strategy by exploring how the relationship between market unknowns over the key success factors and management education impacts the preference for differentiation via innovation and differentiation via marketing (Gavetti, Levinthal et al., 2005; Gavetti and Rivkin, 2007)

However, to some extent, we may also link the findings to more novel lines of strategic thought. For instance, past research (Malerba, 2006; Anderson and Tushman, 1990; McGahan and Silverman, 2001) shows that the differentiation via innovation is more effective for companies in an emerging industry and industries that are punctuated by major transformation where key success factors are (trans)formed. In such settings, the hidden champions can carry the competitive edge over the incumbents. This proposition initially appeared in Gavetti's and Rivkin's (2007) Lycos case study of the role of firm's rationality, emergent search, plasticity, age, and industry maturity.

The research findings also reveal that business (MBA) education is important for the selection and effective execution of the differentiation via marketing but not so much for the differentiation via innovation. Contrary to the expectations of some, the effectiveness of differentiation via innovation statistically depends neither on education nor technical-engineering education. This finding is important for all educators because it partly implies that we have no effective education offerings for the managers who must and want to effectively execute the differentiation via innovation. In such case, the possible effective solution could be action-learning education with many interventions and reflections on the effects of actions. We should rethink business education in the way that it becomes more effective, also in terms of influencing and executing the strategy of differentiation via innovation.

To a certain extent, research provides an important insight into the plasticity elements of the strategic behavior and mindset of a strategist. The very young behavioral theory of strategy is at the forefront of strategy research, so it concentrates on the plasticity of the strategist's cognition, the firm's structural plasticity, the plasticity of the insti-

tutional laws and norms, and the value of wider business eco-systems (Gavetti, Greve et al., 2012).

Past research has shown that the hidden champions are more resilient to recessions and market shocks (Simon, 2009), so we presume that the hidden champion type companies are more plastic than average firms due to the former's better execution of differentiation points. Although this study did not compare the CEE hidden champions and the German-speaking hidden champions, this paper indirectly reveals that the CEE context possesses some of the hidden champions that, when faced with strategic and market unknowns, usually more successfully follow the strategy of differentiation via innovation than the marketing differentiation.

The study nevertheless carries limitations of results which originate from its design and methodology. First, the study sample bears some weaknesses: companies originate not only from relatively heterogeneous countries but also from very heterogeneous industries; and, some of the variances of the relationship between performance and strategy-performance may originate from this heterogeneity. Furthermore, the research design also carries some language and translation issues. Although the official language was English, the researchers gathered the interviews and most of the data in national languages and only then translated them into English. Even though the researchers gathered the definitions of market positioning in interviews with the CEOs and through the study of secondary sources like websites, these definitions of market segment positioning were very heterogeneous. Moreover, we used only a single and not very reliable indicator to assess the CEOs' estimations of market segment growth potential. Additionally, public reporting does not exist in many CEE countries, so the researchers assessed performance only through the subjective opinions of CEOs. Due to these research deficiencies, the overall findings do not represent perfectly reliable reflections and bear limited replicability over time. Despite substantial deficiency in research rigor, this research attempts to explore the highly subjective aspects of strategic decision-making like how perceptions of managers over market unknowns influence their differentiation choices; that is, to study the uncertainty in the minds of managers (Kozłmiński, 2015). Such research can provide more relevance and valuable insights than strictly rigorous research, especially when business environment is in transition to a novel stage (Sidor, 2015).

Despite the limitations, research findings, and reliability issues, the outcomes open very interesting questions for future research endeavors. For instance, from what kind of education would companies benefit most in the pursuit of different points of differentiations in the settings of many unknowns over the key success factors, bearing in

mind that the contemporary design of business education, at best, supports the effective execution of marketing differentiation; whereas more effective and necessary for a highly transformative market context is the differentiation of innovation. In other words, how can firms and CEOs become more flexible in their structures, strategies, and minds, and what kind of education is needed to support and enhance their plasticity? This research question is of huge importance not only for the effective evolution of business and society but also for the evolution of business schools and similar higher education institutions.

Conclusion

SMEs able to successfully pursue the strategy of differentiation in niches are an important pillar of national competitiveness, employment, and GDP growth. However, some succeed with the strategy of differentiation via innovation while other with the marketing differentiation. This paper explored the factors that discriminate between the successful pursuits of the strategy of differentiation via innovation from the successful pursuit of the strategy of marketing differentiation in niches on the international scale. Specifically, the article explored two discriminators: (1) market unknowns of the key success factors in the specific market segment, and (2) the professionalism of the strategist/manager. This study empirically focused on the CEE hidden champion type of companies which are defined by number one, two, or three market share in the CEE region or wider. The research of this sample of companies revealed with substantial reliability that the differentiation via innovation positively impacts firm performance when there are many market unknowns over the key success factors while the marketing differentiation positively impacts firm performance when there are few market unknowns over the key success factors.

Let us depart from strategic management in order to speculate about the deeper aspects of strategic decision-making, namely the power of intention, attention, and perception. We find that hidden champion managers can focus on strategy of innovation when they perceive high market unknowns and, through it, start creating their own business landscape. This research shows indirectly that even small firms hold the power of creation – not only big MNCs. In small firms, the perceptions and focus of managers hold event greater importance in this creative power. The managers can create novel business landscape through focusing on innovation – creating something new, not yet seen – when they cannot perceive sound business anchors in the key success factors in the outer business. This finding implicitly shows that the intentions that the managers bring to the business are more important than the outer realities of the

business. What matters most in the strategic behaviors of the company is the management and their inner world; this is much more important than the outer world (Scharmer, 2009).

The quality of the inner world, the intentions, and where the management puts their attention is to a large extent shaped by their professional upbringing (Schmidt-Wilk, Heaton et al., 2000) and unmet needs (Barret, 2016). For instance, when the top management earns a business education, the impact of marketing differentiation on firm performance is significant, positive, and strong.

Therefore, this study also brings forth one of the implications for the future of business schools, namely that the education of managers matters because it shapes where they place their attention (innovation, marketing) and how successfully they follow through their intentions to manifest them in business realities. As Laloux (2014) has put it in his recent book *Reinventing organizations*, managers consciously or unconsciously form business practices that make sense to them and correspond to their way of dealing with the world. Therefore, business schools should also attempt to raise the consciousness of the students that are about to become managers. They need to learn about the role and power of their perceptions, attention, and intentions in the success of a business. This may become a great leverage of business schools as they begin to contribute to the betterment of society and become deeply responsible business educators (Flynn, Tan et al., 2017).

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Appendix

Table A1. Descriptive statistics, bivariate linear correlations, and Cronbach's alpha for measured variables for firm performance (FP)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
CP – competitive position	108	3.0	7.0	5.407	1.0768
GRW – growth	107	2.0	7.0	5.374	1.2924
PRF – profit	107	1.0	7.0	4.617	1.2638
SM – ensuring survival in the market	108	2.0	7.0	5.648	1.0879
OPS – overall satisfactory	104	3.0	7.0	5.375	1.0900
PRI – performance through recession	107	1.0	7.0	5.327	1.1798
Valid N (listwise)	103				

		Correlations					
		CP	GRW	PRF	SM	OPS	PRI
CP	Pearson Correlation	1	.659**	.549**	.498**	.597**	.413**
	Sig. (1-tailed)		.000	.000	.000	.000	.000
	N	108	107	107	108	104	107
GRW	Pearson Correlation	.659**	1	.595**	.550**	.576**	.286**
	Sig. (1-tailed)	.000		.000	.000	.000	.001
	N	107	107	106	107	103	106
PRF	Pearson Correlation	.549**	.595**	1	.570**	.590**	.406**
	Sig. (1-tailed)	.000	.000		.000	.000	.000
	N	107	106	107	107	104	106
SM	Pearson Correlation	.498**	.550**	.570**	1	.488**	.405**
	Sig. (1-tailed)	.000	.000	.000		.000	.000
	N	108	107	107	108	104	107
OPS	Pearson Correlation	.597**	.576**	.590**	.488**	1	.342**
	Sig. (1-tailed)	.000	.000	.000	.000		.000
	N	104	103	104	104	104	104
PRI	Pearson Correlation	.413**	.286**	.406**	.405**	.342**	1
	Sig. (1-tailed)	.000	.001	.000	.000	.000	
	N	107	106	106	107	104	107

** . Correlation is significant at the 0.01 level (1-tailed).

Reliability Statistics	
Cronbach's Alpha	N of Items
.863	6

Table A2. Exploratory Factor Analysis on measured variables for firm performance (FP)

Communalities		
	Initial	Extraction
CP	.549	.624
GRW	.561	.607
PRF	.535	.622
SM	.456	.521
OPS	.477	.537
PRI	.275	.257

Extraction Method: Principal Axis Factoring.

Total Variance Explained						
Factor	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.613	60.215	60.215	3.168	52.807	52.807
2	.760	12.664	72.879			
3	.497	8.286	81.165			
4	.435	7.255	88.420			
5	.396	6.602	95.022			
6	.299	4.978	100.000			

Extraction Method: Principal Axis Factoring.

Factor Matrixa	
	Factor
	1
CP	.790
PRF	.789

GRW	.779
OPS	.733
SM	.722
PRI	.507
Extraction Method: Principal Axis Factoring.	
a. 1 factors extracted. 5 iterations required.	

Table A3. Descriptive statistics and bivariate linear correlations for measured variables for marketing differentiation (MD)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PM – professional marketing	106	1.0	7.0	4.821	1.5724
PRC – prestige pricing	108	1.0	7.0	3.750	1.8247
MAR – market positioning	106	1.0	7.0	3.330	2.0770
Valid N (listwise)	105				

Correlations				
		PM	PRC	MAR
PM	Pearson Correlation	1	.175	-.196*
	Sig. (2-tailed)		.073	.045
	N	106	106	105
PRC	Pearson Correlation	.175	1	.136
	Sig. (2-tailed)	.073		.165
	N	106	108	106
MAR	Pearson Correlation	-.196*	.136	1
	Sig. (2-tailed)	.045	.165	
	N	105	106	106

*. Correlation is significant at the 0.05 level (2-tailed).

Table A4. Descriptive statistics and bivariate linear correlations for measured variables for differentiation via innovation (Dvl)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
INN – product-service innovation	106	1.0	7.0	5.627	1.6258
RD – R&D costs	96	1.03	5.80	1.9493	.83574
QUAL – quality	106	3.0	7.0	6.170	1.0279
PAT – patents	102	1.0	7.0	4.676	1.9303
PRODN – product novelty	105	2.0	7.0	4.867	1.5258

Correlations						
		INN	RD	QUAL	PAT	PRODN
INN	Pearson Correlation	1	.336**	.173	.359**	.207*
	Sig. (2-tailed)		.001	.078	.000	.036
	N	106	95	104	100	103
RD	Pearson Correlation	.336**	1	.286**	.122	.204*
	Sig. (2-tailed)	.001		.005	.244	.050
	N	95	96	94	93	93
QUAL	Pearson Correlation	.173	.286**	1	.218*	.282**
	Sig. (2-tailed)	.078	.005		.028	.004
	N	104	94	106	102	103
PAT	Pearson Correlation	.359**	.122	.218*	1	.277**
	Sig. (2-tailed)	.000	.244	.028		.006
	N	100	93	102	102	99
PRODN	Pearson Correlation	.207*	.204*	.282**	.277**	1
	Sig. (2-tailed)	.036	.050	.004	.006	
	N	103	93	103	99	105

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).