

BUSINESS DESIGN FOR MAXIMIZING BENEFITS OF ORGANIZATIONAL FLEXIBILITY AND ORGANIZATIONAL WISDOM

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Summary

Strategic management literature states that the toughest business challenge is to merge organizational experience and wisdom of age with plasticity and flexibility of youth. Past research has shown that some companies have been known to couple the wisdom of age with the flexibility of youth. An example of this is the hidden champion type of companies. This paper studies the phenomenon of coupling the wisdom of age with the flexibility of youth on the sample of 95 hidden champion type of companies from Central and Eastern Europe. The research design combines multiple data-collection sources, qualitative and quantitative methods, multiple investigators, grounded theory approach and inductive reasoning with deduction. Research has come up with a set of tentative findings of how a firm can remain flexible and adaptable long enough that business wisdom is sufficiently gained about the market structure, namely: (1) by carefully allocating scarce resources to business activities in order to gain the wisdom of age; (2) by using leadership as an instrument mechanism to gain flexibility; or (3) by keeping the value proposition fluid to gain flexibility; or (4) by fixing the value proposition in order to gain the wisdom of age faster. The research has some severe limitations in the form of limited reliability of data and limited generalizability. Research is original in at least two ways: (1) it offers tentative insight into the grand strategic management dilemma of plasticity-irrationality vs. inertia-rationality, and (2) it researches multiple-countries of the CEE region.

Key words: *plasticity, rationality, globalization, niche players, value proposition, value chain, leadership.*

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1. INTRODUCTION

A young firm in a new industry makes only a few immobile investment commitments into business activities. Therefore, it is highly plastic with little structural inertia in place. Furthermore, its managers are not set in their thinking and established ways of doing things. Their mind not being slicked to successful ways of doing business in the past, they can come with any new effective way of doing business. Yet in a nascent industry, the core cause-effect structure of business success is not yet known, so managers cannot know *ex ante* what the best way of doing business is (Gavetti, 2012; Gavetti & Rivkin, 2007).

Over time, industry conditions clarify and the fog over performance topology goes away (Levinthal, 1997), the performance cause-effect structure becoming more salient. Managers become better able to see what business practices work/do not work. But usually over time the firms develop structural inertia and thus become also less plastic (Baron, Hannan, & Burton, 1999; Hannan & Freeman, 1977). With aging the firm ossifies and commits itself to a particular way of doing business. Moreover, managers become cognitively inert in their thinking (Gavetti, 2011). Both the structural and mental elements of doing business tend to become more rigid, less flexible (Gavetti & Rivkin, 2007), so the firm cannot devise and implement the best way of doing business anymore.

This raises a key question for managers who have tackled contemporary strategy research: how can a firm structure and minds of strategic leaders remain flexible and adaptable long enough for a market setting to solidify, cause and effect structure become known, so the best ways of doing business can be designed (Gavetti, Levinthal, & Rivkin, 2005) Metaphorically put, how can a firm merge wisdom of age with flexibility of youth (Gavetti & Rivkin, 2007). Research has shown most SMEs lose flexibility of youth sooner than they gain wisdom of age (Cegarra-Navarro, Sánchez-Vidal, & Cegarra-Leiva, 2011; Liao, Welsch, & Stoica, 2003).

While most firms lose flexibility of youth sooner than they gain wisdom of age, one subgroup of SMEs seems to be more capable of managing this fundamental tension – the so-called hidden champions (abbrev. HCs in the text) (Simon, 1996a, b; Simon, 2009). Hidden champions (1) hold number one, two, or three positions in the global market, as determined by market share; (2) have revenues below \$4 billion; and (3) have a low level of public awareness (Simon, 1996a).

Simon's research (Simon, 2009) showed that hidden champions are relatively old – thus might be subject to structural and cognitive inertia – yet appear to be more flexible and responsive to market recessions, technological punctuations and institutional turbulences (Romanelli & Tushman, 1994). Simon's hidden champions originated from Germany, Austria and Switzerland (German speaking countries); they were on average 60 years old, and also – by definition - the biggest players in their corresponding global niches. Their size and age have made them wise in running business operations but not inflexible to environmental instabilities. They were better able to overcome any substantial environmental instability on the global market than their competitors (for instance, 1997 Asian financial crisis, 1998 Russian financial crisis, 2002 South America economic recession, 2003 German economic recession, 2008 global financial crisis, etc.). This ev-

idence implied that this type of firms exhibit some capacities of coupling flexibility of youth with the wisdom of age.

In this paper we study the capacities of coupling flexibility of youth with wisdom of age of hidden champion type of companies from the Central and Eastern European region (McKiernan & Purg, 2013). We focused on the CEE region because this region underwent substantial institutional changes over the last few decades (Williamson, 2000), which made coupling flexibility of youth with wisdom of age even more crucial.

Our research question was: "What are the distinctive ways of doing business of hidden champion type of companies in the CEE region and how these distinct ways of doing business contribute to coupling the wisdom of age with the flexibility of youth?". In collecting data about hidden champion type of companies from the CEE region we triangulated multiple data-collection sources, combined qualitative and quantitative methods, and employed multiple investigators (Eisenhardt, 1989; Yin, 1996). We used multi-case-study research design and took a grounded theory approach (Glaser & Strauss, 1967). After the inductive study of business success stories of individual hidden champion type of companies, we moved from induction to deduction. Deductive thinking resulted in a set of propositions about coupling rationality (wisdom) and plasticity (flexibility) (March, 1981).

The remainder of this paper is organized into four parts. The second section briefly discusses the different types of companies examined and outlines the research design. The third part presents the summary of main results of inductive analysis of individual case studies. The fourth section deduces a set of four possible hypotheses and theory building attempts. The final section comes up with some tentative conclusions.

2. RESEARCH METHODOLOGY

2.1. Entering the field

Hidden champion type of companies were identified and interviewed by a team of 32 field-researchers from 18 countries (Albania, Belarus, Bosnia and Herzegovina, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Latvia, Macedonia, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia, Turkey, and Ukraine). Field-researchers were mainly professors, senior lecturers, research assistants at local business schools and also business consultants. The team was formed in spring 2010.

The first challenge of research team construction was making field researchers capable of knowing and detecting hidden champion type of companies. They all received Simon's book (2009) to inform themselves about the HC phenomenon. After reading the book, they participated at a special 2-day workshop on how to detect and get information about their business models and business practices from top strategists of hidden champion type of companies, which by very definition would like to stay hidden.

In the process of detecting potential HCs, the field researchers carefully scanned various sources of information ranging from national and international statistical reports, economic studies; databases and networks of research and educational institu-

tions; business rankings, articles in business magazines and other media; consultancy reports, information available through ministries, chambers of commerce, and other public bodies. Despite this extensive scanning of multiple sources, Simon's search criteria proved insufficient and unsatisfactory due to four substantial research challenges:

- Research challenge 1: Companies, once identified, liked to stay hidden;
- Research challenge 2: Some countries did not have public reporting and a systemic search for HCs was not possible;
- Research challenge 3: In some countries, Simon-like HCs did not exist;
- Research challenge 4: Even if researchers applied Simon's search criteria and identified the company whose leader confirmed that the company was first in the CEE in a specific market segment, the market segment might have been defined in a creative and narrow enough manner that even a small company could be positioned the first in the world or the continent.

Resolution of these four research challenges called for adjustment of hidden champion selection criteria for the CEE region in the following manner:

- Resolution of research challenge 1: Identified companies that wanted to stay hidden, stayed hidden; they were not included in the study. Roughly 45% of identified companies (135 out of 300 identified companies) fell into this category.
- Resolution of research challenge 2: Any information that the researcher could get about the company was considered to be better than nothing. If the only informant was the company CEO and the researcher could not access financial records and other information through other sources, trust was placed in their figures e.g., about growth of export and revenues.
- Resolution of research challenge 3: If Simon-like HCs could not be identified in a specific country², field researchers looked for the best approximation of HC types in the local context. Therefore, if the company was a market leader in a narrow product category in a specific region (Balkans, CIS region, Baltic region) and exhibited a consistent growth pattern over the last 3-5 years, the company was included in the sample. However, these companies were categorized as 'potential' hidden champions.
- Resolution of research challenge 4: If the company marked itself as a market leader in a very narrow market segment by using the creative market definition – by Simon's definition, creating its own market niche is part of the hidden champion strategy - the field researcher carefully scrutinized the market segment size and its specific regularities in order to assess the relevance of the self-stated market leadership. If this was considered to be weak and questionable, the local field researchers were entitled to exclude the company from the sample.

² Adjustment of this criterion was done in seven countries: Bulgaria, Hungary, Bosnia and Herzegovina, Macedonia, Albania, Kazakhstan, and Belarus.

2.2. Gathering the data

Field researchers gathered both primary and secondary-source data. Gathering primary source data was conducted in two stages: (a) structured interview with top decision-makers (in most cases the entrepreneurial founder and members of the management board) in order to complete Simon's diagnostic questionnaire, and (b) open-ended interviews with top decision-makers on a business model design and business practices that most contributed to the business success.

a) Collecting questionnaire data

After detecting potential HC companies, the request for an interview with top decision-makers (in most cases the entrepreneurial founder and members of the management board) was sent by the local field researchers. After the interview, the field-researchers completed Hermann Simon's abbreviated HC diagnostic questionnaire which covered the following topics: general information about the company, nature of market leadership, growth indicators (revenues, export rates, employees), geographic markets, in which the company held a strong market position, the nature of competition on these markets, nature and diversity of customers, factors driving the customers' purchasing behavior, characteristics of the company products (life cycles stake, technological complexity, capital intensity etc.), aspects in which the company product was superior to products of main competitor(s), general competence of the company (e.g., leadership, patents, financial strength, reputation, history etc.), innovation practices, IP protection, performance indicators, financing instruments, and information about the general board. Each concept was assessed through multiple items and cross-examined through multiple questions. Both closed and open questions were used; closed questions applied the 1-7 Likert scale. The questionnaire is enclosed in the appendix. In total, 165 companies were examined by Simon's diagnostic questionnaire (list of hidden champions are presented in the appendix).

b) Collecting data for case-studies

In addition to the abbreviated questionnaires, the field researchers conducted in-depth exploratory interviews with top strategists (company funder-owner, CEO, other members of the management board). Out of the 165 companies examined by questionnaires, 95 companies agreed with in-depth open-ended research interviews lasting on average 120-150 minutes.

Field researchers started open-ended interviews by describing the research purpose, exploring the interviewee's background, and asking the interviewee to recount how the company succeeded in creating their market leadership and what business and leadership practices in their mind contributed to this success the most. Most interviewees were eager to tell their stories and needed little prompting. Interviews were conducted in the native language of the interviewee and, if permitted, also audio-taped.

During the interviewing process the field researchers probed into the nature of market leadership. Whenever possible, they inquired into the aspects of company performance that were suggested by the interviewee as critical to company success. In

some CEE countries (Albania, Belarus, Russia, Kazakhstan, Macedonia etc.) public records of financial performance of interviewed companies were not available, therefore researchers could not check the reliability of reported performance numbers (revenues, employees, capitalization etc.). The field researchers explored different aspects of company success thoroughly enough to comprehend how the relevant business elements resulted in business growth and market leadership. In addition, they were sensitive to the novel aspects of HC behavior that were not initially addressed by the questionnaire (Dougherty, 2005).

The audiotaped interviews were then transcribed and translated into English. If audiotaping was not allowed, field researchers made short notes during the interviews and extensive notes after the interviewing process.

c) Collecting data from secondary sources

To check the reliability of primary source data, field-researchers gathered also a vast amount of secondary sources. Mostly they collected in-house memos, reports, promotional material and published stories about the organization that appeared on TV, internet, in trade journals or newspapers over the period 2000-2010. When possible, they also collected financial reports for period 2000-2010. Data was gathered with a retrospective method. The passage of time between events and interviews made forgetfulness and retrospective bias possible (Golden, 1992). To guard against such bias, field-researches questioned multiple individuals on overlapping topics. This data-gathering approach lead to the triangulation of multiple data-sources, combined qualitative and quantitative methods, employed multiple interviewees and multiple investigators (field-researchers).

At the beginning of February 2011, all field researchers convened at a joint workshop to review, discuss, compare and consult their data and early findings. After the workshop, the field researchers wrote their comprehensive analytical case studies that unpacked the main elements of the business success of each hidden champion. Overall, 95 case studies of 1-3 pages long were produced. Because these case studied may be infused by substantial degree of field-researchers' personal subjectivity (Dougherty, 2005), the subjectivity was counteracted by the fabrication of a mass (95) of subjective case studies that allowed identification of themes relevant to the HC phenomenon that tend to be fairly stable over these cases (Mohr, 1998).

2.3. Data analysis

a) Data analysis of questionnaires

The overall sample of HCs from CEE accounted for 165 companies that were analyzed by the questionnaire. This sample provides a good enough answer to the question "what kind of hidden champion companies does CEE region hold?" It also allows some comparisons with Simon's hidden champions detected in Germany, Austria and Switzerland (Simon, 2009). Figure 1 showed that HCs from CEE are both younger and

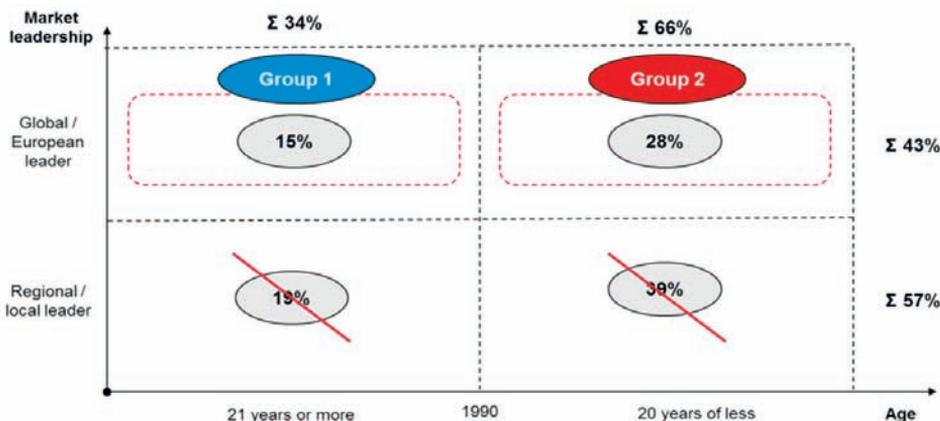
smaller than Simon's HCs. Typical CEE HC (researched in 2011) is on average 19 years old, employs on average 1.420 people, and creates on average 141 mio EUR revenues per year. Typical Simon's HCs (researched in 2009) are on average 61 years old, employ on average 2.037 people, and create on average 326 mio EUR revenues per year.

Figure 1: Comparison of Simon's HCs with HCs from CEE

Indicator	Simon's hidden champions	Hidden champions in Central and Eastern Europe
Market position	No. 1 in Europe or World's top 3	Global, European, Central and Eastern European or Regional leaders
Average annual revenues (EUR)	326 million	141 million
Revenue growth (10 years)	8.8%	10.4%
Number of employees	2,037	1,420
Export (% of revenues)	61.5% (51.1% 10 years ago)	62.1% (58.2% 10 years ago)**
Productivity (annual revenues in EUR per employee)	160,039	99,240
Median age of the company (years)	61	19
Research and development expenses (% of revenues)	6%	16.4%
Patents per 1000 employees	30.6	41.98
ROCE/ROI (%)	13.6%	32%
Equity ratio (%)	41.9%	56%

Due to our research focus on how much plasticity and flexibility has been preserved over the years and growing size and experience, and how much inertia and wisdom of doing business has been gained, we rearranged the sample by using two dimensions: (1) age – set up before or after 1990; and (2) geographical spread of market leadership - regional market leader in CIS countries, Baltic region, Balkans region, Alpe-Adia region or being truly global by holding a market leadership position in CEE region or larger. Consequently, four groups of HC companies were formed: (1) companies set up before 1990 with a number one position at CEE level or larger; (2) companies set up after 1990 with a number one position at CEE level or larger; (3) companies set up before 1990 with market leadership position at regional level; and (4) companies set up after 1990 with market leadership position at regional level. Distribution of CEE HCs across four subgroups is presented in Figure 2.

Figure 2: Distribution of CEE HCs by age and geographical extent of market leadership



To be better able to crack the question of how much plasticity and flexibility has been preserved over the years with growing size and experience, and how much inertia and wisdom of doing business has been gained, we further narrowed down the research on only those companies that hold global and at least European leadership and among them distinguish between those set before 1990s and companies set up after 1990s. The companies set up before are referred to as group 1, while companies set up after 1990s are referred to as group 2 (see Figure 2).

b) Data analysis of case-studies

Three researchers trained in decoding read each case study several times with a core question in mind: what specific business and leadership practices that contributed to the lasting market success of group 1 helped gain and preserve flexibility over time while using the wisdom of age, and what specific business and leadership practices that contributed to a lasting market success of group 2 companies help gain and preserve the wisdom of age, while applying flexibility. We presumed that competitive success of group 1 partly lies in their capacity of preserving flexibility and adaptability while being old and wise. We also assume that the competitive success of group 2 lies partly in their capacity of gaining wisdom of the old faster than competitors while being young and flexible.

The process of decoding resulted in the collection of over 170 fragments of text. Each fragment was tentatively labelled, then sorted into preliminary categories with similarly labelled text. Next, decoders examined these categories looking for relationships between them, in some cases merging and/or relabeling the categories and documenting ideas and themes emerging from them. Playing with emerging meanings and looking for new emergent themes, while comparing them across multiple cases (Glaser & Strauss, 1967), decoders finally narrowed all subthemes into three foci: (1) what are the core constructs of value propositions that enforce the success of HCs from CEE region; (2) what are the core activities that produce these value proposition; and (3)

what specific leadership behaviors coordinate identified activities into coherent wholes. The reliability of coding process was subsequently re-examined by two experienced researchers, Peter McKiernan and Hermann Simon.

3. RESEARCH RESULTS

3.1. Construction of value proposition

The essence of business success is depicted by the value proposition the company creates for a targeted customer group (Woodall, 2003). Value proposition describes the bundle of products and services that create value for a selected customer segment (Osterwalder & Pigneur, 2002). It is the reason why customers choose one company over another. An effective value proposition targets “jobs” that customers cannot get done in a satisfactory manner by using current solutions/products (Anthony, Johnson, Sinfield, & Altman, 2008). Moreover, a value proposition is “an aggregation, or bundle of benefits that a company offers to the customer” (Osterwalder & Pigneur, 2010). Value propositions are supposed to serve also as a decision-anchor for a firm to decide to which business activities it should commit its scarce resources to (what business activities to do/not to do) (Chesbrough & Rosenbloom, 2002).

Good understanding of the value proposition is thus extremely important for business success, yet literature provides little guidance on what the constructs of value propositions are. Careful reading and encoding of multiple-cases of HCs unpacked six constructs of value propositions: embodiment of value proposition, driver behind the value proposition, superiority of value proposition, protection of value proposition, and central risk to eroding the value proposition (Figure 3). Further analysis revealed that group 1 holds substantially different construction of the value proposition than group 2.

Figure 3: Differences in the construction of value propositions between group 1 and group 2 of HCs from CEE

Core constructs	Group 1	Group 2
Embodiment of value proposition	Technologically complex (standard) product	Knowledge complex (custom-made) solution
Superiority of value proposition	Price/value advantage	Technologically advanced product design features
Driver behind the value proposition	Economies of scale, economies of speed	Economies of learning, economies of speed
Protection of value proposition	Enforcement of product as an industry standard, shaping customer perception of company-specific risk	Enforcement of product as an industry standard, reputation and image building in professional magazines and by gaining prestigious professional awards.
Central risk to eroding the value proposition	Expand too quickly to high risk countries	Move too quickly to the next generation of products

a) Typical construction of value proposition of group 1 HCs from CEE

Value proposition of group 1 is embodied in technologically complex modularly designed materialized products. These generic products are customized and differentiate in accordance with the needs of specific customers. Modularized approach to product design enforces successful coupling of innovation through module-recombinations (Baldwin & Clark, 2000) while enforcing economies of scale (Tseng, Jiao, & Merchant, 1996). In consequence, the driver behind the value proposition of group 1 are economies of scale and economies of speed (Hagel & Singer, 1999). To outperform competitors, group 1 HCs differentiate themselves with a favorable “price/quality” ratio. The danger of competing simultaneously with the “price/quality” ratio is stuck-in-the-middle without the competitive advantage neither on the cost nor the quality side (Porter, 1985). They protect the “value” of their products by means of patent protection; some also try to enforce their products as industrial standards enshrined in legislation. Next, the protection of the value proposition influences and shapes how customers perceive them relative to main competitors. Namely, main competitors are those with substantially higher prices coupled with slightly higher quality. Such competitors mainly originate from more stable and developed economies which create less country of origin liability than the CEE region (Parameswaran & Pisharodi, 1994), are older with less liability of newness (Freeman, Carroll, & Hannan, 1983) and have more experience that creates lower costs and trustworthiness (Spence, 1981). Customers consider such competitors a less risky (more reliable) option. Lower risk perception provides grounds for justifying higher prices for competitors. Thus the management of group 1 HCs from CEE considers their main task to influence and shape customers’ perceptions of risks they present for them. Next, in search for growth opportunities, group 1 companies are expanding in riskier countries (Asia, Africa and South America) than their main competitors from developed economies, where competition from the developed world is weaker due to country specific risks. The main risk is that they expand too quickly into countries with too high risk economies.

A typical example of composition of value proposition of group 1 is the Slovakian company Drevodomy Rajec. Drevodomy is one of the leading companies in log houses construction in Europe. In the number of built log houses it is ranked 3rd in the world and 1st in Europe. A log house is an extremely personalized product: a client would select a model from a catalogue, or design an original model. Quality of the product is extremely important and price – especially after the 2008 global meltdown - play a very important role in the decision-making process of customers. Builders from Drevodomy Rajec would then build the house according to specifications, but they would do so in Slovakia. The construction pieces are individual, but have to fit each other perfectly, and the main walls are all constructed without the use of nails or other iron support. Once the house is built in this fashion, it is then deconstructed, with pieces clearly marked, loaded onto vehicles and transported to the client, where it is reconstructed again. Although the production process of log houses is not overly complicated, constant innovations of this centuries-long process are present. Mr. Bronček, CEO of the company – attributes the company’s successful market positioning to two things: being inexpensive relative to competitors that provide similar quality of wooden houses, and uniqueness

of their product with its constant innovations. Favorable price/quality ratio is part of the reason why they have become market leaders over the years. Reputation gained over the years and becoming a housing standard plays an important role in the success of Drevodomy Rajec.

b) Typical constructs of value proposition of group 2 HCs from CEE

In contrast to group 1, group 2 products are less tangible. The value proposition is embodied in a more knowledge-intensive custom-made business solution (some are materialized in products and some in material services). The superiority of the value proposition is proclaimed in technologically advanced business solutions. They tend to view each solution design as a unique learning opportunity. Put differently, they master the exploration process and push the technology/knowledge frontier upward (Levinthal & March, 1993). However, this comes at the expense of exploitation of novelty. In consequence, the drivers behind the value proposition are learning economies and economies of speed. In very narrow terms, product novel and novel product categories/solutions do not have direct competitors, only lagged imitators. In a way, they mainly compete with itself, cannibalize old technological solutions with new technologically advanced technological solutions (Moorthy & Png, 1992). In consequence, they are extremely weak in extracting value from their innovations (Chesbrough & Rosenbloom, 2002; Teece, 2006). In addition, they lack resources to fully intellectually protect their innovations. Even if they possess sufficient resources for IP protection, for many high-tech solutions – IT for instance - patenting is a weak protection mechanism against competition (Teece, 1986). They protect their innovations against competition in more hidden ways, for instance, through branding, image and reputation building by winning prestigious professional prizes and appearing in scientific articles and professional articles in magazines. Their main risk of eroding the value proposition is in “moving too quickly to the next generation of products”.

A typical example of a group 2 value proposition is the Slovenian company Pipistrel, which is number one in the world in the new and recently established categories of ultralight aircraft, first in the world in double seat motor gliders that can turn into pure gliders once in the air, first in the world in two-seat gliders with an auxiliary and in the category of electric two-seater airplanes, first in the world in the newly established category of electric two-seater gliders. In other words, Pipistrel is a leading designer and producer of new categories of ultra-light aircrafts. Mr. Boscarol, leader, entrepreneur, founder, owner, and CEO of a Pipistrel (established in 1982) likes to emphasize that their business success originates not only from constant introduction of novel categories of eco-efficient and environmentally-friendly ultra-lights planes but from successfully putting their planes on the international market. The geographic spread of Pipistrel's market share largely depends on national aviation standards. The speed and flexibility of adopting new standards is very different from country to country. Pipistrel has always had a great influence on standards of international and national aviation agencies. In addition to imposing Pipistrel planes as a standard to national and international aviation bodies, Pipistrel also heavily invests into reputation and image building in professional circles by winning awards and recognition for Pipistrel's UL planes. In 2008,

electrified 4-seater Taurus was recognized by magazine “Popular Science” as one of Top Ten global innovations. Next, in the last five years Pipistrel received NASA awards three times for the most energy efficient ultralight plane. In addition, in 2011 Pipistrel received the European Business Awards for the most innovative company capable of continuously launching new industry segments. Despite this success, Pipistrel is squeezed out of the market in a segment of novel (not very profitable) categories. However, Mr. Boscarol views this cruel reality from his own perspective: “We have only two options. First, to develop a new product category and cash it out in the next 5 years and then die, or second, to invest all the funds back to research of new product categories and live further. We decided for the later. It’s tough, yet exciting!... And we love what we are doing. It is our hobby. This is who we are!” Boscarol’s thinking nicely illustrates the dominant competitive logic of group 2 companies – namely, they try to outperform the competition by quickly moving to the next generation of products. They use IP protection very selectively, only if required to stay in the competitive game. IP rights frequently serve as an entrance for some calls of government/EU co-funding.

When looking at the six constructs of the value proposition - embodiment of the value proposition, driver behind the value proposition, superiority of the value proposition, protection of the value proposition, and central risk to eroding the value proposition – we can conclude that the value proposition of group 1 is more static, tangible and material. On the other hand, the value proposition of group 2 is more fluid, intangible and cognitive.

3.2. Design of business activity systems

Specific value proposition is brought to light through a set of value-adding business activities of a company (Brandenburger & Stuart, 1996). Sets or systems of business activities designate the most important things a company does to create a specific value proposition (Osterwalder & Pigneur, 2010). There are three criteria of well-designed systems of business activities: effectiveness, efficiency and viability (Burton, Obel, Hunter, Søndergaard, & Døjbak, 1998). There are three generic systems of business activities: value chains (Porter, 1985), value shops and value systems (Stabell & Fjeldstad, 1998).

We examined the multi-case studies through Porterian preconceptions of business activities. More specifically, we asked what are specific ways of performing purchasing, sales and marketing, distribution and logistics, manufacturing and R&D activities; and how these ways of performing Porterian activities differ between group 1 and group 2 of HCs from CEE. Core differences are summarized in Figure 4.

Figure 4: Differences of activity system of group 1 and group 2

	Group 1	Group 2
Design of purchasing activities	Suppliers as competitors. How can we design better manufacturing equipment than those available to suppliers of such equipment?	Suppliers as customers. How can we create value for the supplier?
Design of sales and marketing activities	Living the customer reality! How to adjust the standard product to the demands of the individual customer?	Living the future! What needs to be changed by us, by customers, elsewhere to create the future?
Design of distribution and logistics activities	Focus on logistics of physical goods. Production and warehouses set close to core customers.	Focus on logistics of ideas. Production and storage of ideas happens at global professional networks; positioning in these networks is crucial.
Design of manufacturing activities	Insourced.	Outsourced.
Design of R&D activities	Product innovation and process innovation. R&D departments. R&D is located in research departments, institutes and labs. Joint ventures and members of global technological platforms.	Product innovation and business model innovation. R&D spreads across the company without any specific R&D departments. Innovation is the responsibility of all employees.

a) Typical design of the business activity system of group 1 HCs from CEE

When looking at how purchasing processes are typically performed by group 1 type of HCs, we have detected many idiosyncratic ways of dealing with suppliers and performing purchasing. However, across more than 3/4 of group 1 companies, one unified pattern of behavior appeared with to purchasing activities and treatment of specific groups of suppliers – namely manufacturers of equipment. In group 1 HCs, design and manufacturing of business equipment and machinery is insourced, equipment is completely customized and adjusted to specific quality targets of the company, manufacturers of similar components are treated as competitors in that respect. When designing their own business equipment and machinery, their lead question is how they can design better manufacturing equipment than is available by suppliers of such equipment? In a way, group 1 HCs partly compete with themselves in the value capturing game backwards in the industrial value chain (Tae & Jacobides, 2011). The attitude of group 1 companies towards customers and their marketing and sales activities is also idiosyncratic in many ways and unified in one. Namely, when dealing with customers they all state they try to step into the customers’ shoes and try to live and understand the customers’ reality and their experiences (Meyer & Schwager, 2007). When acquiring a better understanding of their customers, they ask themselves how to adjust their standard product to the specific demands and needs of each individual customer. Usually, they have a few big customers with whom they create above 2/3 of revenues. Their distribution and logistics system is organized in such a way to optimize the movement of physical goods and minimize transportation costs. Furthermore, to maximize responsiveness to customers’ needs, their production facilities and service outlets are located close to core customers. In addition, a typical group 1 company innovates intensively; on average they invest around 5% of sales revenues back into R&D, most of innovation

activities is focused on process innovation, a few also on product innovation. However, innovation activities are not everyone's responsibility, but are more or less compartmentalized in special R&D departments. Some bigger group 1 HCs also possess their own research institutes and labs.

A good example of the organization of business activities of group 1 are Russian Helicopters, one of the leading players in the global helicopter industry, founded in 2007 as a Joint Stock Company in the form of holding. The holding coordinates the activities of five assembly plants, two design bureaus, two component production plants, and one overhaul plant, all of which were previously autonomous. Through this centralized coordination from the holding headquarters, the company manager assumes global leadership by centralizing R&D activities, eliminating duplication and other production inefficiencies between plants, and presenting highly unified global marketing sales efforts. At first, sales activities were mainly focused on emerging economies (CIS, Asia, Africa and Latin America). They have a high-quality variation of technologically complex products, and each type of helicopter is produced in a separate production plant. To minimize duplications and other inefficiencies, improve R&D successes and increase market power, they have merged all companies in one holding company with a common governance scheme. They have unified sales and marketing efforts and focused them on emerging economies. They offer a powerful lesson, that it is not enough only to have a superior product, but it is important to make sure that the whole business model design (and especially the design of after-sales activities) supports your long-term business success (Chesbrough & Rosenbloom, 2002).

b) Typical design of the business activity system of group 2 HCs from CEE

The design of business activities of group 2 companies is very diverse with little common pattern across all business activities. Some group 2 companies have unique approaches to sales and distribution, others to purchasing and supplier handling, others in R&D and manufacturing. Below we present the most distinctive practices in organizing purchase, sales and marketing activities, distribution and logistics, manufacturing and R&D activities that were revealed through decoding of the business cases.

Some group 2 companies focus on non-standard solutions to purchasing and supplier relationship management (Möller & Törrönen, 2003). For instance, they treat their suppliers equally king-fully as customers. They select business design choices that best maximize the value for suppliers and create good profits for them as well. Such examples include Instrumentation Technologies, world leader in production, supply and advice in instrumentation for beam particles, and the already mentioned Pipistrel. After the initial design of their product solution (defining shape, functionality, and components), they produce themselves only the prototypes, then after performing quality tests, designing the tools for mass production, and specifying technological standards, they outsource everything to local producers. For instance, Pipistrel also develops a network of distributors to whom it allocates the assembly and maintenance of planes. When outsourcing parts of their business to suppliers, they do not press suppliers too much for rents. "They also need to earn their fair share of profits!", says Boscarol.

When designing marketing, sales and customer relations management activities, some group 2 companies aim to co-create the customers' and their own future jointly. When doing that, they use real option reasoning (McGrath & MacMillan, 2000), asking themselves what needs to be kept and what needs to be changed within them and within customers for a specific vision of the future to come true. Example is DOK-ing, a company from Croatia that holds a leading position in the world in producing mining remote controlled vehicles. They produce the vehicles for the extraction processes in platinum and chromium mines in South Africa. Cooperation with South Africa mines resulted in the development of remote controlled vehicles for "removal" mining that allowed a significant increase in profitability in the segment of excavation of the ore.

When making decisions about the design of logistic and distribution systems, instead on logistics and distribution of material goods, group 2 companies focus on logistics and distribution of technological ideas and solutions. They try to maximize the chance of getting to new technological ideas and solutions by positioning themselves in the centers of professional networks, which serve as organizational learning platforms for novel technological solution and ideas (Camarinha-Matos & Afsarmanesh, 2005). Such example is the Slovenian company Instrumentation Technologies which created its own professional community, namely of users of their devices for measuring nano-particles called Libera. In this community-of-practice, users – who are mostly lead scientists, share their experience and knowledge. In addition, the company also organizes regular workshops and conferences where users can physically meet. The adage of the company is "Many Instruments, Many People Working Together."

Last but not least, innovation activity in Group 2 is extremely intense. On average they invest well beyond 15% of sales revenues. In most group 2 companies responsibility for innovation is not compartmentalized, but it is the responsibility of all. From that aspect, they are real knowledge creating companies (Nonaka, 1991). Their focus is not only on product innovation, but also on business model innovation. Innovation is considered the responsibility of all employees, regardless of the department they are in. For instance, the Slovakian company Kvetsky, delivers flowers ordered through the Internet. They deliver flowers to customers from other countries (110 countries). They have innovated the business model that bypasses many mediators and distributors in the value chain of the flower industry. Flowers are delivered directly from their plantations by air. Because customers pay mainly by credit card, credit card worthiness is crucial. For that matter, they invest heavily into customer analysis. They developed their own system of monitoring the efficiency of purchases and their customers access the ERO – system (efficient advertisement online), in order to have statistics from all internet addresses of visitors-customers. This database enables them to address advertising campaigns more effectively. Marketing is a very strong tool in this segment.

When looking at distinctive ways of conducting purchasing, sales and marketing, distribution and logistics, manufacturing and R&D activities of group 1 and group 2, we can conclude that group 1 designs Porterian value-adding activities with standardization, modularization and institutionalization of products in mind. Group 2 designs Porterian value-adding activities with the view of maximizing the likelihood of creating the desired (preconceived) future.

3.3. Leadership practices

Purchasing, sales and marketing, distribution and logistics, manufacturing and R&D are interdependent choices that need to fit together (Siggelkow, 2011). They also need to fit externally with the environments and dynamically across time and space (Gavetti, 2012). Internal, external and dynamic coordination are the key functions of a leader (Chester, 1938; Lawrence & Lorsch, 1967). We have also carefully read business cases from the leader perspective with the aim of detecting common leadership practices that induce successful internal, external and dynamic coordination. This encoding process revealed six second-level constructs across which leadership practices of HCs is distinctive across the two groups: role of a leader, core challenge of a leader, communication approach, motivation approach and decision making style. Differences are summarized in Figure 5.

Figure 5: Characteristics of leadership practices of group 1 and group 2

	Group 1	Group 2
Role of a leader	Resolving challenges and tensions. Editing the reality by presenting it in a more pleasant way than it is.	Creating new challenges and tensions. Editing reality by presenting it in a harsher way than it is.
Core challenge of a leader	How can we overcome our structural and institutional barriers in markets in which we compete?	How can we overcome our cognitive barriers in time and space in which we operate?
Communication approach	Vertical, formal, clean communication.	Horizontal, informal, spurious communications, lots of questioning.
Motivation approach	Employees incentivized by better job & higher salary.	Employees incentivized by quest for prestigious awards, professional recognition.
Decision-making style	Business decisions centralized, core technological decisions decentralized to experts. Rational justifications of chosen decisions.	Core technological decisions centralized, business decisions decentralized. Irrational justifications of chosen decisions.

a) Typical leadership practices of group 1 HCs from CEE

In Group 1 the main role of a leader is mainly to stabilize the business system. Accordingly, their main focus is on resolving the internal inefficiencies, conflicts and tensions that appear within and across departments in the company. They also actively monitor business opportunities and threats. In doing that they are more focused on threats than growth of opportunity. When presenting the treats to employees, they constantly edit the reality and make it more pleasant. The core challenge of a leader is how to adjust internal business practices and organizational structure to the perceived business threats and opportunities. Their main challenge is to overcome structural barriers and inertia (Hannan & Freeman, 1984). The dominant communication pattern in the company is formal and vertically hierarchical. They motivate employees by job stability, pay and expected promotion on better paid jobs. Top management decision style is ambidextrous (Tushman & O'Reilly, 1996) with core technological decisions decentralized to experts, while keeping the core business decisions centralized at the top management

level. When different options for growth are discussed at the top level, they are evaluated on rational financial criteria like NPV or IRR.

Representative group 1 company is the UBC Group (Ukrainian Beer Company Group), number 1 in the world in production of beer coolers and also number 1 in the CIS in producing beer promo products (caps, cafeteria carts, tent products, ceramic beer faucets, etc.). The UBC leaders believe that “further business development conditions will become more severe. Such situation will be caused both by changes in market conditions, new players approaching the market, and by macroeconomic situation and business environment deterioration within the country. Thus, we try to change the organization structure towards better capacity utilization and cost control.” The main role of top management is to perform strict control over the distribution channels, making structural adjustments that result in an increase in operational efficiency and becoming highly client-oriented with flexible pricing and product design solutions.

b) Typical leadership practices of group 2 HCs from CEE

Distinctive leadership practices of group 2 are quite dissimilar to group 1 leadership practices. The main role of a leader is to constantly create new tensions and challenges for the company. They travel around the world, visiting customers and professional events where they come up with new ideas that they bring home, and make employees execute them. In doing that, their mind-set is very future oriented. A popular question in their mind is “what needs to be done by us, the company and at the customers so that the desired future comes to reality”. They practice option-based reasoning (Gunther McGrath & Nerkar, 2004). Their past successes taught them the core lesson, that by such future-oriented thinking in the past they were able to spot distant business opportunities in the business landscape and grabbed them by successfully overcoming cognitive inertia (Gavetti, 2011). Their communication structure is flat, and communication (knowledge and ideas) flows freely and spuriously, without any rigid channels. However, in this flat organization there is little opportunity for job promotion in the conventional sense. Instead, employees are motivated by substantial work autonomy, opportunities for professional development, work on the knowledge-frontier and expectations of peer recognition and recognition in professional circles (Latham & Pinder, 2005), which may create novel job opportunities for the person (some employees had been headhunted away that way). Top leaders’ decision style is also ambidextrous (Tushman & O’Reilly, 1996), however in groups 2 companies the core technological decisions are kept centralized and business decision (e.g., how to innovate sales and distribution) are left decentralized. When leaders are making up top technological decisions, they justify them mainly on an emotional and intuitive basis.

Good example of strategic foresight and visionary leadership is Mr. Viktor Bykov, a graduate of Moscow Institute of Physics and Technology, one of leading Russian establishments. Ability to spot distant business opportunities was first detected in 1990, when Bykov, while working for the central Soviet research institution, was assigned to lead a research project with the aim of merging two types of technologies: scanning tunnel microscope (STM) and scanning probe microscopes (SPT). A group of scientists eventually succeeded in merging the two different technologies in one device; however,

the research team was disbanded. Bykov convinced the researchers to set up their own company NT-MTD with the goal of bringing this innovation to the market. After some years of struggle for survival they eventually succeeded. Today, NT-MTD holds 20% of the global market design and development of scanning tunnel microscopes (STM) and scanning probe microscopes (SPT). Rok Uršič, highly entrepreneurial scientist, founder and CEO of Slovenian company Instrumentation Technologies nicely described how spotting distant business opportunities and bringing it to reality unfolds: “We struggle with moments of feeling stuck, restless and relentless before coming to moments of clarity, followed by action and ending with culmination, funneled towards a period of serenity and rest. In business as in arts, critical issues need to be sensed out of ambiguous contexts, with subjective certainty in what one is doing ... I believe in men... into integrating technology with man. Technology is only the explication of man’s ability to create outstanding products. People working for Instrumentation Technologies believe that too. If I would say to my employees we do not need to struggle for pure technological excellence, they would start leaving the company. If you walk around our company you can sense the passion employees have for technological supremacy. They are burning for our product Libera.”

When comparing the leadership practices (role of a leader, core challenge of a leader, communication approach, motivation approach and decision making style) between the two groups, we can conclude that leadership practices of group 1 accentuate the negative and cost aspects of doing business, and understate the company abilities. Leadership practices of group 2 accentuate the positive and benefits of doing business, and overstate the company abilities.

4. TENTATIVE PROPOSITIONS AND UNFOLDING OF THEORY

Research of hidden champion type of companies revealed that older companies have more static, tangible and material value propositions. They are more committed to devising business activities, so they maximize standardization, modularization and institutionalization of products. Static, tangible and material value propositions and processes of standardization, modularization and institutionalization increase inertia and create a form of inertia (Hannan & Freeman, 1984) as well as business wisdom originating from the learning curve, age and experience (Bettis & Prahalad, 1995).

Group 1 companies face the danger of making too much commitment scarce resources into products that brought success in the past (Leonardbarton, 1992). The role of leadership practices is to counteract such risks. Therefore, leadership practices of group 1 accentuate the negative and the costs of doing business (Lovallo & Kahneman, 2003), understate the organizational abilities and overemphasize control. By using this approach they reduce the business risk, increase the availability of scarce resources and create a form of flexibility (Singh, 1986).

Younger companies have more fluid, intangible and cognitive value propositions. Leaders of group 2 accentuate the positive and the benefits of novel business ideas, they

overstate organizational abilities, and underemphasize control (Lovallo & Kahneman, 2003). That way the company builds up and preserves flexibility in creating new realities (Kahane, 2004).

The danger is that the company shifts too fast into new realities, without gaining enough wisdom from experience (March, 1991). We propose that such wisdom of experience is gained indirectly by allocating scarce resources to all business activities that maximize chances of bringing the desired future into the present (Senge, 1998). Based on these findings we propose four tentative propositions:

Proposition 1: In order to gain experience and wisdom of doing business, either allocate scarce resources into business processes that enforce standardization, modularization and institutionalization of products or contrary to this, allocate scarce resources into all business activities that maximize chances of bringing the desired future into the present.

Proposition 2: In order to gain plasticity and flexibility of doing business, either establish leadership practices that emphasize the positive and the benefits of novel business ideas, overstate organizational abilities, and underemphasize the control or establish leadership practices that accentuate the negative and the costs of doing business, understate the organizational abilities and overemphasize control.

Proposition 3: Either keep the value proposition fluid to gain flexibility and plasticity of doing business, or fix the value proposition to gain experience and wisdom of doing business.

5. CONCLUSION

Strategic management literature states that the toughest business challenge is to merge the wisdom of age with the flexibility of youth (Gavetti & Rivkin, 2007). Past research has shown that some companies have been known to couple the wisdom of age with the flexibility of youth. An example of this is the hidden champion type of companies (Simon, 1996a; Simon, 2009). This paper studies the phenomenon of coupling the wisdom of age with the flexibility of youth on the sample of hidden champion type of companies from Central and Eastern Europe.

Qualitative analysis of 95 case studies of hidden champions from CEE region came up with a set of tentative conclusions about coupling: (1) carefully allocate scarce resources to business activities to gain the wisdom of age; (2) use leadership as an instrument mechanism to gain flexibility; or (3) keep the value proposition fluid to gain flexibility; or (4) fix the value proposition to gain the wisdom of age faster.

This research has some severe limitations: (1) we were able to collect only limited information about business stories of individual companies because many companies preferred to stay hidden with respect to some aspects of doing business; (2) due to a mainly qualitative research design on specific subset of companies in specific geography – hidden champion companies from the CEE region - this research provides limited generalizability; (3) research was conducted in native languages across 18 countries,

therefore in the process of translation of findings into English some important data and meanings might have gotten lost. Thus, future research that counteracts these limitations is kindly invited.

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POSLOVNO PLANIRANJE ZA NAJBOLJU KORIST OD ORGANIZACIJSKE FLEKSIBILNOSTI I ORGANIZACIJSKE MUDROSTI

*Melita Balas Rant*³

Sažetak

Literatura o strateškom upravljanju govori kako je najteži poslovni izazov spojiti organizacijsko iskustvo i mudrost koja dolazi s godinama s plastičnošću i fleksibilnošću mladosti. Dosadašnja istraživanja su pokazala kako određena poduzeća imaju određena iskustva s povezivanjem mudrosti starosti i fleksibilnosti mladosti. Primjer su vrste kompanija koje nazivamo „skrivenim prvacima“ (eng. hidden champions). Ovaj rad prati povezivanje mudrosti starosti s fleksibilnošću mladosti na uzorku od 95 poduzeća „skrivenih prvaka“ iz Središnje i Istočne Europe. Istraživanje kombinira prikupljanje podataka iz više izvora, kvalitativne i kvantitativne metode, više istraživača, pristup utemeljene teorije (eng. grounded theory approach) te induktivno zaključivanje s dedukcijom. Istraživanje je došlo do načelnih spoznaja o tome kako tvrtka može ostati fleksibilna i prilagodljiva dovoljno dugo da se prikupi dovoljno poslovne mudrosti o tržišnoj strukturi, na primjer: (1) pažljivo raspodijeliti ograničene resurse na poslovne aktivnosti kako bi se stekla mudrost iskustva; (2) koristiti vodstvo kao instrument fleksibilnosti; (3) zadržati fluidnost ponude vrijednosti kako bi se ojačala fleksibilnost; ili (4) popraviti ponudu vrijednosti kako bi se brže prikupila iskustvena mudrost. Istraživanje ima značajna ograničenja zbog ograničene pouzdanosti podataka i ograničene mogućnosti uopćavanja. Istraživanje je originalno zbog dva razloga: (1) nudi načelni uvid u veliku dilemu strateškog upravljanja – plastičnost/iracionalnost nasuprot inercije/racionalnosti, te (2) istražuje više država regije Srednje i Istočne Europe.

Ključne riječi: plastičnost, racionalnost, globalizacija, specijalizirani subjekti, ponuda vrijednosti, lanac vrijednosti, vodstvo.

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