Leveraging (in)formal early-mover and diligent-follower advantage mechanisms to attain international niche market leadership: insights from Basque "hidden champions"

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Bart Kamp
Orkestra-IVC, Deusto University, San Sebastian, Spain, and
Iñigo Ruiz de Apodaca
Construcciones y Auxiliar de Ferrocarriles, Beasain, Spain

Abstract

Purpose – This paper aims to study whether international niche market leaders (INMLs) gained their leading position as early mover or diligent follower, and assess whether they leveraged hard or soft forms of technological, supply pre-emption and customer lock-in advantage mechanisms.

Design/methodology/approach – Empirical material stems from qualitative and quantitative data on a sample of 20 niche companies from the Basque Country (Spain) that operate in business to business markets.

Findings – The sample predominantly followed an early entrant strategy and applied soft measures to reach niche market leadership.

Research limitations/implications – Findings imply that early entering fosters conquering leadership in niche markets, that pioneer advantage is easier to sustain in niches than in mainstream markets, and that soft measures are more effective in niche markets than in larger markets. A limitation to our findings is that they follow from explorative research on a sample of firms from a reduced geographic setting.

Practical implications – Hidden champions and INMLs can be important sources of technological progress and economic value for the localities that host them. Therefore, despite their traditional low profile and the fact that they are not always the largest firms around, policymakers may want to pay more attention to this type of companies.

Originality/value – Tot he best of the authors' knowledge, this is the first paper to research entry timing and its outcome for market leadership with regard to niche players or hidden champions-type of firms. It introduces an original taxonomy to operationalize and distinguish between hard and soft measures to leverage advantage mechanisms related to market entry timing.

Keywords B2B, International business, Hidden champions, Market entry timing, Niche markets

Paper type Research paper

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1. Introduction

Research into the question "Which company leads a market several years after its inception?" took off following Lieberman and Montgomery's (1988) article on first-mover advantages. Subsequent publications supported either the first-mover advantage thesis or that of the follower's advantage. Among the first, we find Carpenter and Nakamoto (1989), Kim and Mauborgne (2005) and Molina-Castillo *et al.* (2012). Conversely, scholars like Tegarden *et al.* (1999), Markides and Geroski (2005) and Suarez and Lanzolla (2005) conclude that diligent followership and second-mover advantage are more effective for attaining market leadership (Box 1):

Box 1. Market leaders seizing either first-mover or diligent follower's advantages

An example of first-movership leading to sustained market leadership is Baader from Germany: the global market share of this pioneer in fish processing equipment is hegemonic, and it has hovered around 80% for decades. This family business, now headed by the third generation, was founded in 1919 with the aim of developing the world's first heading and deboning machine for herring. Within three years Baader started introducing its first machines to the market, changing the way fish would be processed from that moment on. Today it supplies all types of heading, skinning, fileting, gutting, splitting, as well as packing solutions for all sorts of fish from warm and cold-water grounds. It generated around €200m in turnover (2017) from sales in over 70 countries across the globe: https://fish.baader.com/

A case that illustrates how that later entrants can take a market lead is Winterhalter Gastronom, a manufacturer of commercial dishwashing systems (also of German origin, founded in 1947). It went from a me-too player in many dishwasher verticals (e.g. schools, hospitals, prisons and hospitality) to becoming the number one in the hotel and restaurant segment. This happened after it concluded that it acted as a follower in its initial target markets leading to a low global market share overall. It thus decided to focus on hotels and restaurants and not just orient its product development to that end market, but also provide a range of specialized support services and adjacencies for users from the hotel and restaurant segment. Consequently, it reached a market share of close to 20% in its core business segment. In 2018, its worldwide sales figure was €325m: www.winterhalter.com/uk-en

Source: Compiled by the authors

Studies on first-/second-mover advantages (hereafter: FMA/SMA) have been subject to some critique. For an overview of empirical and methodological "conundra" and pending issues, see Frawley and Fahy (2006), Lieberman and Montgomery (2013) and Fosfuri *et al.* (2013).

The critiques and doubts in question typically concern the following issues:

- FMA/SMA studies have been more geared towards business to consumer/fast moving consumer goods (B2C)/FMCG markets (palm devices, computer game consoles, MP3 players, medicines, diapers, etc.) and products that the general public is familiar with (aeroplanes, elevators, photocopiers, web browsers, etc.) than towards products that trade in business to business (B2B) markets. In particular, upstream components and technologies, which end up inside finished goods, have been overlooked.

- There has been a strong reliance on databases like PIMS, ASSESSOR and STR 2 or 4, despite the clear methodological difficulties that these data sets entail. One such shortcoming is – in line with point 1 – that they primarily contain data from large and well-established companies that operate in clearly delineated product markets. Another shortcoming is that the average researcher/analyst who uses data from such sources has not been involved in the gathering and validation of responses and must thus assume that each company surveyed has understood each question and construct correctly. Such an assumption is overly optimistic [1].
- Most publications are rather categorical about specific advantages being the prerogative of first movers/early entrants, whereas others are attributed to second movers or diligent followers. As such, they make a clear distinction between FMAs and SMAs. However, authors like Markides and Geroski (2005), as well as Gomez *et al.* (2016), give us reason to think that advantages that are typically attributed to first movers can likewise be seized by actors that enter later (and vice versa). Consequently, it may be more correct to talk of "swing advantages".

In light of the above, the present paper focuses on company types, sources and methods to overcome the handicaps indicated and generate additionality vis-à-vis the state of the art in FMA/SMA research.

Specifically, it focuses on international niche market leaders that operate in B2B markets, and analyses whether they achieved leadership positions as an early mover or a diligent follower, which advantage mechanisms (establishing technological leadership, securing access to critical assets and/or locking in key customers) they used on their road to market leadership and whether these mechanisms were "formal" or "informal" in nature (in terms of decisiveness and commitment on the part of the company applying them and/or the demand side actor[s] on the receiving end).

The rest of the paper is structured as follows:

Section 2 theorizes the research questions.

Section 3 operationalizes the research steps.

Section 4 presents the findings.

Section 5 discusses them in the light of the existing literature.

Section 6 presents implications for practice and future research, and highlights limitations of the current study.

2. Literature review

2.1 Advantage mechanisms related to market entry timing

Proponents of FMAs argue that entering a market first allows pioneers to enjoy a (temporary) monopoly (Lieberman and Montgomery, 1988; Carpenter and Nakamoto, 1989; Kim and Mauborgne, 2005; Rodríguez-Pinto *et al.*, 2008), resulting in a strong customer following, a commanding market share and market leadership.

Proponents of SMAs, like Boulding and Christen (2003) or Markides and Geroski (2005), argue that entering a market first may be a handicap in the long run, allowing later entrants to overtake early entrants.

Following the seminal works of Lieberman and Montgomery (1988) and Markides and Geroski (2005), scholars like Suarez and Lanzolla (2005) and Gomez *et al.* (2016) have put forward and examined a number of mechanisms that can enable both early entrants and diligent followers to take advantage of the timing of their entry and support them on their way to market leadership.

These mechanisms can be divided into three main categories (Lieberman and Montgomery, 1988): establishing technological leadership, pre-emption of critical assets on the supply side and locking in key customers or pre-empting access to them.

The following Table 1 provides a summary of these advantage mechanisms and how early entrants and diligent followers can leverage them:

2.2 Entering and defending competitive advantages in niche markets

When analysing how firms apply these three advantage mechanisms to position and defend themselves in niche markets, previous research has shown the following:

2.2.1 Establishing technological leadership. The way that technological leadership in niches comes about may be rather subtle. In other words, niche players may not be the ones to conduct the fundamental research behind a given technology or to register the corresponding intellectual property. Instead, they may focus on applying an available technology, material or asset for specific purposes and attune it to the needs of a select group of customers (Shani and Chalasani, 1992). Often this implies adapting functionalities of such technologies or devices for the sake of compatibility with the target audience's needs. Hence, leadership resides in differentiation instead of standard use of extant technology (Toften and Hammervoll, 2013) and in offering segment-specific or customized solutions (Syam and Kumar, 2006; Brotspies and Weinstein, 2019). Consequently, they seek to become a "champion" of a specific technology for niche applications or the preferred choice for a particular set of users (Kindstrom *et al.*, 2018).

In addition, their leadership may not be so conspicuous. As it tends to be grounded in earning a reputation and gaining credibility through performance on the ground (Dalgic and Leeuw, 1994; Mascarenhas, 1999), word-of-mouth referrals may matter more than branding activities, registering trademarks and coming up with proprietary technologies.

2.2.2 Pre-emption of critical assets or securing access to them. The non-hegemonic stance that characterizes niche players when it comes to establishing technological leadership can also be discerned in how they ensure access to critical inputs and competences. Their tactic may not so much be to deplete such resources or skills, but rather to craft or obtain access to them through inter-organizational bonding (Boon *et al.*, 2014; Nenonen *et al.*, 2020).

Similarly, internal development and growth (or cooperation with third parties for reciprocal specialization) may be more in line with their *modus operandi* than aggressive takeovers of peers or input providers. In line with Prahalad and Hamel's (1990) core competence reasoning, Mascarenhas (1999) argues that in-house capacity building and selective outsourcing may be favoured over the internalization of external parties and/or resources. In relation to internationalization, this may also lead them to prefer greenfield investments over acquisitions of or joint ventures (JVs) with foreign parties (Mascarenhas, 1999; Venohr and Meyer, 2009).

2.2.3 Locking in key customers or pre-empting access to them. A first characteristic of how niche players conquer clients is related to their pickiness regarding which clients to go after. It is key to specialize in constricted market segments (Thilmany, 2012) and serve a specific, limited, group of customers (Toften and Hammervoll, 2009). This allows them to devote ample attention to each of them (Parrish, 2003), while it also enables defending their market position (Parrish *et al.*, 2006) and fence off a compact pocket of demand of a bigger market (Slater *et al.*, 2010; Brotspies and Weinstein, 2019). Consequently, their aim is not to be a leader in front of a large and heterogenous audience, but in relation to a well-defined set of customers (Toften and Hammervoll, 2013).

Ottosson and Kindstrom (2016) argue that niche players typically try to become a preferred supplier early on. This aligns both with first-mover tactics and with relationship

Advantage mechanisms	Opportunities for early movers at market inception	Opportunities for diligent followers when the market evolves
Establishing technological leadership	By entering first, pioneers are able to shape a nascent market (Storbacka and Nenonen, 2011). The first-to-market can set (technological) standards and establish a dominant design that organizes a market to suit it (Chiesa *et al.*, 2002). This can be done via patent registrations or other forms of IP protection (Rayna and Striukova, 2009). Alternatively, they can try to influence the adoption of regulations and standards by regulatory bodies in order to benefit from these (Ordeix-Rigo and Duarte, 2009; Doganova and Karnoe, 2015)	While first movers must typically innovate radically during the fluid phase of industry/market formation, market followers may get a free ride on first movers' product innovation (Schnaars, 1994) and/or surpass them based on incremental innovation (Utterback, 1996; Poletti *et al.*, 2011). Thus, instead of participating in the race towards a dominant standard for a new market, later entrants that adhere to a dominant design once it is settled can leapfrog the originators (Tegarden *et al.*, 1999; Afuah, 2009)
Pre-emption of critical assets or access to them	Early entrants can build up asset advantage (Finney *et al.*, 2008) by: pre-empting resources (Bohlmann *et al.*, 2002), securing access to scarce or superior input factors (Boulding and Christen, 2008), building up initial production capacity (Lieberman and Montgomery, 1988) and acquisition of (potential) competitors (Vidal and Mitchell, 2013)	When the market grows, scale becomes vital, and such growth can inhibit first movers' ability to pre-empt scarce resources (Suarez and Lanzolla, 2005). If this happens, new entrants will have more opportunities to invest in specific assets – or acquire them – to enhance production, and exploit complementary resources (Kogut, 1988; Robinson *et al.*, 1992)
Locking in key customer (segment)s or pre-empting access to them	First movers can set up entry barriers for newcomers by raising buyer switching costs. These can be particularly powerful if a user must make dedicated investments to adapt to a new product or enters into contractual commitments with a first mover (Lieberman and Montgomery, 1988) Equally, first movers can leverage early entry by forging strong bonds with customers (Ghemawat, 1986), notably by engaging in high-encounter situations with a (launching) user community (Zack, 2005) In addition, by acting early, first movers have the opportunity to be identified with a (new) product category (Fosfuri *et al.*, 2013). This can create a mental anchoring effect in the customer's mind (Molina-Castillo *et al.*, 2012), and cause demand to gravitate towards them. Also, first movers are typically viewed as innovators and differentiators, which appeals to specific customer segments (Kim and Mauborgne, 2005)	Once the number of buyers grows, the ratio of first-hour customers to newcomers declines. Similarly, the share of customers that are locked into the original technology or solution shrinks, and switching or opt-out costs fall (Beggs and Klemperer, 1992) Second movers can also benefit from entering later, as by the time they enter, (mainstream) customer preferences are clearer (Schnaars, 1994). Moreover, once routine users, late adopters and laggards outnumber early adopters, focusing on average customers becomes more profitable than battling for trendsetters Similarly, as customer preferences can change and evolve over time, first movers may embark on a mistaken product course (Rayna and Striukova, 2009), while later entrants can avoid such errors Later entrants can also piggyback on the effort that pioneers must invest in educating the market and raising concept visibility. As such, for diligent followers, it can be easier to connect with growing streams of users (Schnaars, 1994)

Source: Compiled by the authors

Table 1. Advantage mechanisms available to early movers and diligent followers at the time of market entry

marketing to win customers before niche opportunities are revealed to others (Shani and Chalasani, 1992). It also connects with the idea of taking the lead in an emerging market niche while maintaining a low profile (see Section 2.2.1).

Furthermore, Parrish (2003), Toften and Hammervoll (2009) and Thilmany (2012) insist on the importance of relationship longevity and loyalty between counterparts in niche markets. By focusing on a limited customer base, niche players can build strong relationships with their customers and achieve customer intimacy (Toften and Hammervoll, 2009). In addition, co-creation with customers is seen as a way to foster buyer–supplier closeness, sustain market relationships over time (Ottosson and Kindstrom, 2016; Nenonen *et al.*, 2020) and get value propositions right (Payne *et al.*, 2017).

3. Methods

Having put into perspective the different advantage mechanisms that (niche) market entrants can deploy, we seek to investigate how companies that compete in international niche markets make use of them. Because our research question and mission are exploratory, we apply cross-case study analysis.

3.1 Sampling frame

3.1.1 International niche market leaders as the unit of analysis. When referring to companies that are international niche market leaders (hereafter: INMLs), we build upon the concept of "hidden champions" (Simon, 1996, 2009, 2012). The term refers to firms that operate in niche markets that do not receive a lot of attention from the media and the wider public. Simon (1996) observed how a number of these companies had internationalized and became leaders of global niche markets. An "eye-catching" example could be Dhollandia: [2] see Box 2:

Box 2. Dhollandia as a "hidden champions" example

Dhollandia is a Belgian manufacturer and outfitter of tail lifts for lorries that is the run-away market leader in Europe. It focuses on this back-end part of trucks and on this part only. But in this product category it has an unrivalled expertise, as well as a depth of knowledge (90% of all the hydraulic, mechanic and electric elements that go into their tail lifts are developed and manufactured in-house), and a ditto catalogue width (with tail lifts for sustaining 150 until 32,000 kg of weight for vans, trucks and trailers, using 17 types of loading ramps). To support its global sales activity, it has production subsidiaries in five countries (Belgium, France, Slovakia, Ireland and the USA), and counts with distribution points and sales delegations in dozens of others. Next to its pan-European presence, its products find their way to 70 markets outside Europe. Founded in 1968, Dhollandia had an annual turnover of €70m in 2021 and a market share of 90% across Europe: www.dhollandia.be/GB/en/8/category/33

Source: Compiled by the authors

The markets INMLs serve tend to be B2B, and they typically belong to upstream segments of value chains that remain out of sight for most analysts and the public at large (e.g. components of end products, specialized production machinery and software or technologies to be embedded into third-party devices). In addition, their "hidden-ness" stems from the fact that these firms do not seek out extensive media attention, and instead concentrate on

focused niche marketing strategies (Kormann, 2005; Kiese and Kahl, 2017), making them largely unknown beyond their target market.

3.1.2 Operationalizing international niche market leaders. We use the term "INMLs" to refer to companies with annual turnover of up to €1bn [in line with Venohr and Meyer (2007, 2009) and Simon's (1996) original threshold], which operate in B2B markets (Rammer and Frietsch, 2015), where they are leaders in terms of market share (Simon, 1996, 2009). If they lead the market at a continental level, they must occupy the number one position in terms of market share. In the case of global leadership, they must rank among the top three in market share. A further criterion is that the share of turnover obtained from sales outside of their domestic market must be at least 50% (Din *et al.*, 2013).

3.1.3 Purposive sampling. To source cases, we turned to companies from the Basque Country (Spain), where the public agency sociedad para la promoción y Reconversión industrial (SPRI) and the Basque Government [3] provided a tentative list of companies with an INML profile. Their inventory showcased a (non-exhaustive) number of Basque companies that are successful across the globe, but without systematic validation of their status as a market leader. Hence, we reviewed this roster, supplemented it with desk research and field work, and consulted notable observers from business associations, chambers of commerce and Basque banks with an industrial vocation to check and validate or reject candidate cases based on the criteria from Section 3.1.2. Eventually, this produced a long list of 75 possible INML candidates.

3.2 methodological issues with regard to key constructs

As indicated earlier, FMA/SMA research has sparked doubts regarding the possibilities of adequately measuring scores on relevant (in)dependent variables (Frawley and Fahy, 2006; Lieberman and Montgomery, 2013; Fosfuri *et al.*, 2013). Our primary research also had to deal with issues around construct and measurement validity. In what follows, we provide insights into crucial methodological issues and how we dealt with them.

3.2.1 Conceptualizing market leadership. Although INMLs are by definition leaders in the niche markets they serve, we acknowledge that they may not be the absolute leaders in their field, as portrayed in FMA/SMA literature. In fact, an INML can be number one, two or three in its business on a global scale. Although this means we are not examining FMA/SMA claims *stricto sensu*, our research does make it possible to examine how prominent market positions are conquered. Moreover, in line with Suarez and Lanzolla (2005), we reason that assessing the advantage mechanisms used by runners-up, and whether they are a consequence of first- or second mover-ship, is equally useful, and this is an issue that can also benefit from research around INMLs.

In a similar manner to such authors as Rodríguez-Pinto *et al.* (2008) and Molina-Castillo *et al.* (2012), the yardstick we used to measure market leadership is "market share": sales value of the company's focal product compared to the total sales value of this type of product in the niche market in question. Although this is not the only way to measure market leadership (Vanderwerf and Mahon, 1997; Lieberman and Montgomery, 1988, 2013; Gomez *et al.*, 2016), it is the indicator most commonly applied in the FMA/SMA debate (Gómez-Villanueva and Ramírez-Solís, 2013).

To determine the actual market leadership of the sampled companies, we started with companies' self-assessments based on formal market analyses or deductive reasoning regarding the market share distribution in their focal niche. In case a company recurred to deductive reasoning, a typical explanation that we obtained was the following (from case company 9EM):

> If you operate in a highly defined niche, you know very well who your competitors are, as one tends to encounter the same (limited amount of) contenders all the time.

In such situations, it becomes very easy to estimate the market share of the respective contenders (Meyer, 2006; Hezar *et al.*, 2006).

3.2.2 Interpretation of first mover- and second mover-ship. Defining or drawing a strict line between first mover-ship and second mover-ship is not an easy task (Liebemann and Montgomery, 2012). Among other reasons, information available to make such judgements may be incomplete and the time at which first entrants and followers entered a market often belongs to the (distant) past.

Another problem that many researchers face in this area relates to deciding how to deal with products and entrants that arrive before a market takes off (Lieberman and Montgomery, 2013). In this regard, in line with Molina-Castillo *et al.* (2012), we opted to use an alternative classification system, applying the following categories: "early mover" [be it as the sole pioneer or as one of a few initial market creators – which is in line with the term "pioneering entrants", used in plural by Liebermann (2007)], "fast follower" and "slow follower".

Secondly, we operationalized the timing of niche market entry in function of whether demand was incipient or already consolidated at the moment of an INML's entry (Molina-Castillo *et al.*, 2012). This approach also made it possible to deal with the fact that "fast or slow follower-ship" and "slow or quick demand take-off" are highly market- and product-specific (Suarez and Lanzolla, 2005; Buisson and Silberzahn, 2010). Consequently, we asked companies whether they had been the (sole) pioneer in launching a specific product in their focal niche or a follower. If the company had been a follower, we asked whether it had entered at a time that demand was still incipient (this then led to the label "fast follower") or whether demand was already sizeable at that moment (if so, we would consider it a "slow follower").

3.3 Measures and hypotheses to assess how international niche market leaders leverage advantage mechanisms

3.3.1 Measures. In Section 2.1, Table 1 presented three advantage mechanisms that can lead to market leadership by entering a market either as an early mover or as a diligent follower. Under Section 2.2, insights were provided regarding how these advantages can play out in niche markets and how niche market players can leverage them. To review the measures through which such advantage mechanisms can be leveraged, we place them on a continuum between (highly) "formal" and (more subtle or friendly) "informal". In accordance with the transaction cost economics trichotomy (Williamson, 1991) of hierarchy (proprietary, contractual and inorganic solutions), network (cooperative solutions as well as inter-organizational arrangements) and market (non-proprietary/voluntary solutions as well as organic arrangements), we apply a three-point "scale".

This leads to the following matrix of measures that can be used to leverage the respective market entry advantage mechanisms:

3.3.2 Hypotheses

3.3.2.1 Technological leadership hypothesis. As regards technological leadership, we posit that this can be established, one, through formal patent registrations (Rayna and Striukova, 2009), or two, by the launching of (unofficial) firsts (Simon, 2012) and focusing on context-specific applications of technology (Kindstrom *et al.*, 2018). In between these, firms can try to influence the adoption of overarching framework conditions, e.g. to make their technological improvements and innovations stand out positively (Armstrong *et al.*, 2019). To this end, they can undertake diplomatic activity in support of regulations and quality standards that govern the markets in which they operate (Doganova and Karnoe, 2015). In this regard,

Ordeix-Rigo and Duarte (2009) distinguish between business and corporate diplomacy, whereby the latter targets the establishment of standards and rules that favour the initiative-taking firm and help to improve the market positions of its products and technologies. Conversely, business diplomacy is more informative in nature and serves license-to-operate objectives.

Given niche players' subtle ways of setting themselves up as the (technological) benchmark for a target audience (Thilmany, 2012; Brotspies and Weinstein, 2019; Kindstrom *et al.*, 2018) and their live-and-let-live mentality (Kormann, 2005; Toften and Hammervoll, 2013; Boon *et al.*, 2014), it can be hypothesized that:

H1. INMLs tend to opt for informal measures to emphasize their technological leadership [4].

3.3.2.2 Supply pre-emption hypothesis. When looking at the way that control over critical assets to supply international markets can be established, we postulate that different entry modes can be applied (Brouthers and Nakos, 2004; Barkema and Drogendijk, 2007; Johanson and Vahlne, 2009). In this regard, firstly, INMLs can use low-equity arrangements in the form of exports. Secondly, they can opt for high-equity solutions in the form of greenfield Foreign Direct Investment (FDI) (organic development), or the acquisition of third parties and engaging in JVs with partners (inorganic arrangements) – see Finney *et al.* (2008) and Vidal and Mitchell (2013). Alternatively, they can opt for intermediate (network/cooperative) solutions, like licensing/franchising. In this regard, publications by Simon (2009), Witt (2010) and Witt and Carr (2013) state that hidden champions have a predilection for opening their own branch locations and factories abroad, which they tend to run internally (without relying on third parties). Audretsch *et al.* (2018) add that owning foreign branch locations facilitates close relationships with customers abroad. Therefore, it can be hypothesized that:

H2. INMLs tend to opt for organic and high-control (export and greenfield) foreign market entry modes.

3.3.2.3 Customer lock-in hypothesis. Locking in (key) customers can be achieved by creating formal exit barriers in the form of joint investments and long-term contractual arrangements with them (Lieberman and Montgomery, 1988). It can likewise be pursued through a voluntaristic approach that focuses on (product) customization and responsiveness to singular customer demands (Shani and Chalasani, 1992; Ottosson and Kindstrom, 2016; Nenonen *et al.*, 2020). As an intermediate option, companies can take responsibility for operations that a customer decides to shed off, thus creating a relational bond between the two (Dyer and Singh, 1998; Dyer *et al.*, 2018). In addition, they can set up advanced service contracts to support client operations (Rabetino *et al.*, 2015), thereby enhancing interdependency.

As Simon (2012), Rant and Cerne (2017) and Rammer and Spielkamp (2019) stress hidden champions' reliance on customer intimacy and proximity, we hypothesize:

H3. INMLs tend to apply informal customer lock-in mechanisms to continue doing business with them.

3.4 Data gathering and processing

After drawing up a long list of 75 INML candidates, an online survey was put together. The survey asked about market share of the company in its focal niche (Section 3.2.1), its main

competitors and the timing of entry into the focal niche (Section 3.2.2), while it also requested information on the use of the different measures presented in Table 2. Altogether, this produced usable answer sets from 20 companies (13 early movers, 3 fast followers and 4 slow followers) that met the INML criteria in Section 3.1.2.

After this, semi-structured, in-depth interviews were held with 15 companies from the sample group (9 early movers and 6 diligent followers, of which 3 were fast followers and 3 slow followers). The spokesperson representing the interviewed companies was either the CEO or the head of international sales operations.

The interviews served to broaden our understanding of the timing with which the firms had entered the niche markets where they occupy a commanding position. They also served to reveal the sources of their market leadership (i.e. the advantage mechanisms used – see Section 2 – and the type and character of the accompanying measures – see Table 2). Throughout the interviews, which lasted 60–90 min each, narratives were elicited from the company representatives in a non-directed and unobtrusive manner, allowing them to express themselves in their own language, rather than wording their reality according to pre-defined constructs (Strauss and Corbin, 2015). Afterward, the interview outputs were summarized by the researchers and sent to the company representatives for completion and follow-up. They reviewed these summaries and proposed changes and additions, which helped to put each case into its proper perspective (Creswell and Miller, 2000).

Case investigations were completed by means of desk research on company websites, annual reports and other types of written or otherwise codified material that was received or recommended during the interviews.

In addition, use was made of the European Patent Office's Spacenet for patent filing data (as part of the "technological leadership" analyses, see Section 4.3.1) and of SPRI's inventory of foreign production plants held by Basque companies (for the "pre-emption of supply capacity to foreign markets" analyses, see Section 4.3.2).

Altogether, this made it possible to judge whether the companies had acted as a first mover or a follower into their respective focal niche markets. Similarly, it enabled us to make an abductive identification and assessment of the measures they had used to leverage advantage mechanisms in relation to their market entry (Dubois and Gadde, 2002; Mayring, 2014).

Table 2.
Measures to leverage market entry advantage mechanisms

Advantage mechanisms	Formal measures	Intermediate actions	Informal measures
Establishing technological leadership	Filing patents	Diplomatic activity to influence regulatory standards	Launching technological firsts
Pre-emption of or securing critical assets to supply foreign markets	Takeovers of rivals and peers abroad or setting up overseas joint ventures with third parties	Cooperation with third parties abroad via licensing or franchising own value propositions	Organic foreign entry modes (export and greenfield investments)
Locking in key customers or pre-empting access to them	Exclusive (long-term) contracts and joint investments with customers	Taking over in-house operations from customers, or providing ongoing services to them	Customization of value propositions and showing responsiveness to customers

Source: Compiled by the authors

4. Findings

4.1 Market leadership indices

In total, 18 of the 20 companies presented in Table 3 are global players and rank among the worldwide top three in their business. The other two companies, 6SF and 11FF, are European market leaders with limited activity in other parts of the world.

In terms of the overall market share these Basque INMLs possess, 30% of them hold more than 50% of their focal niche market, 30% hold a market share between 25% and 49% and 40% hold less than 25% of the market.

These percentages show how certain INMLs operate in highly oligopolistic or quasi-monopolistic markets where some of them may even attain hegemonial status. This is for instance the case of 20EM:

> We started out in what currently is our star market around 2003, and we had it for ourselves until 2010. That's when the competition had finally developed the capabilities to follow us in that niche, and our market domination was somewhat diluted.

At the other end of the spectrum, there are INMLs that operate in much more fragmented markets with market shares that are far lower. Among this last group, 7EM holds less than 10% of global market sales in its focal niche market, while still being a top three player there. The company states that it does not have any globally active competitors in its focal niche. However, on each continent and in each large national market, it faces local competition. As a consequence, its overall worldwide market share is diluted to some 8%. This figure – as well as those for 2SF, 5EM, 13EM and 19SF – indicates that the degree of rivalry and the number of direct competitors in a niche market can vary considerably.

4.2 Early movers versus diligent followers, entry timing of international niche market leaders

Altogether, 13 of the 20 INMLs entered the niche market where they currently hold a dominant position as a pioneer (see Table 3). In other words, they moved in before demand took off. In the case of 13EM, the company's founding also marked the start of their focal niche. It started up when electric discharge technology became market-ready, and 13EM was one of the first in the world to provide commercial applications. Among the early mover cases, we see how several INMLs created new product categories by introducing new technologies or materials to alter an existing device (9EM, 15EM [5] and 17EM). Similarly, they built upon existing products or appliances and made them ready for specific, typically highly demanding, circumstances, thus creating new demand categories and/or appealing to previous non-users. This form of differentiation can be observed in 1EM, 4EM, 5EM, 7EM, 8EM, 10EM, 14EM, 18EM and 20EM. As 18EM explained:

> When we introduced our electronic access systems, the market was virgin, which also implied that the demand side was not ready. We focused on users that the traditional supply side was ignoring. This meant there was a potential market we could conquer, but also one that we had to develop entirely on our own.

9EM and 15EM also hinted at the need to educate the market when they started out in the niches in which they became successful.

Only a minority of the sample achieved niche market leadership through fast following (three cases) or slow following (four cases). The fast followers (3FF, 11FFand 12FF) entered after a (group of) pioneer(s) had opened a niche market, but when demand was still incipient. Initially, 12FF started out as a producer based on licences of those who had paved the way in core shooting technology. But when several of them lost momentum, it leapfrogged the

Table 3.
Sample composition and entry timing adopted

Company [8] (visited)	Year of foundation	Annual turnover in Meuros	Focal product/niche combination	Entry timing	No. of years in niche	Global market share
1EM (yes)	1964	130	High pressure valves for gas, oil and mining installations	Early mover	30–40 years	25%
2SF (no)	1946	270	Tailor-made electric current transformers	Slow follower	More than 50 years	15%
3FF (yes)	1963	185	Gas cooktop ignition systems	Fast follower	More than 50 years	55%
4EM (no)	1954	100	Precision grinders for gear box and turbine rectification	Early mover	5–10 years	75%
5EM (yes)	1967	400	Switchgears for electricity substations	Early mover	20–30 years	15%
6SF (yes)	1967	65	Brake callipers	Slow follower	20–30 years	12.5%
7EM (no)	1959	40	Portable manual sprayers for harsh and low-income environments	Early mover	40–50 years	8%
8EM (no)	1940	150	Submersible pumps for water supply	Early mover	20–30 years	35%
9EM (yes)	1923	10	Forging solutions for offshore mooring activities at deep sea level	Early mover	20–30 years	35%
10EM (yes)	1986	20	Software for laser cutting machines	Early mover	10–20 years	25%
11FF (yes)	1972	40	Offset printing for metal containers	Fast follower	20–30 years	10%
12FF (yes)	1973	50	Tailor-made turnkey core making systems for car propulsion devices	Fast follower	30–40 years	50%
13EM (yes)	1952	30	Large, custom-made electrical discharge machines	Early mover	20–30 years	15%
14EM (yes)	1974	160	Thermocouples for heating systems	Early mover	40–50 years	65%
15EM (yes)	1999	60	Electronic solar tracking systems	Early mover	10–20 years	25%
16SF (yes)	1957	60	Flexible crankshaft machines	Slow follower	5–10 years	65%
17EM (no)	1890	85	Tin capsules for glass bottles	Early mover	30–40 years	45%
18EM (yes)	2000	200	Electronic door locks	Early mover	10–20 years	20%
19SF (yes)	1963	600	Non-welded inox tubes	Slow follower	20–30 years	15%
20EM (yes)	1929	120	Large diameter, high-resistance marine chains	Early mover	10–20 years	75%

Source: Compiled by the authors

incumbents and became a global leader in the niche of core making machines for automotive propulsion systems. Finally, the slow followers (2SF, 6SF, 16SF and 19SF) are those that entered a niche when demand was already consolidated. For example, for a long time, 6SF used its foundry installations to produce a broad variety of metal items until it took the strategic decision to focus on the brake calliper business. While this product/niche market combination had existed for a long time, it managed to set itself up for European market leadership.

4.3 Types and styles of advantage mechanisms used in relation to market entry

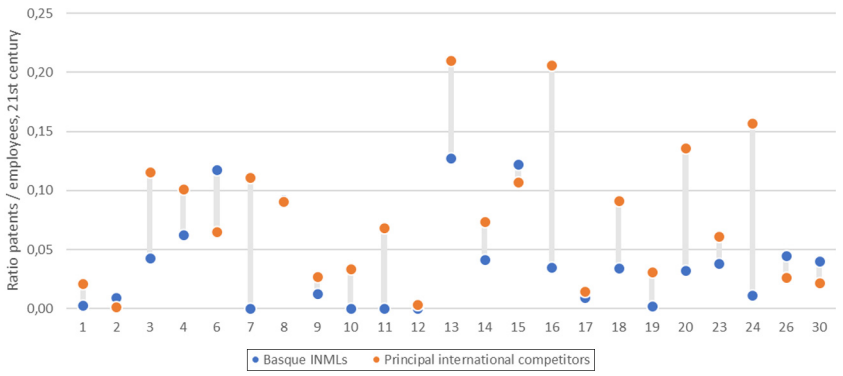
4.3.1 Establishing technological leadership. Technological leadership is highly valued by INMLs, as the following quote by 13EM illustrates:

> Our company was one of the founding fathers of spark machining technology, and while other material removal methods try to rival it, we have managed to stay out of reach of trickling-up technologies for complex and high-precision operations.

Hence, the sampled firms have an interest in protecting and preserving their technological advantages. This section looks at how decisively they handle this area.

4.3.1.1 Filing of patents. To assess the patenting propensity of our INMLs, we first compared their track record with that of their direct market rivals. To do so, we analysed the number of patents that our sample members filed with the European Patent Office, and we did the same for two to four of the main competitors indicated by each INML. We focused on patent filings for the 21st century (up to spring 2021), and calculated ratios between the number of patent applications and the workforce that the INMLs and their respective peers employ. We then compared the average for the peers with the ratio for the INML they compete with [6]. The result of this exercise is shown in Figure 1:

The yardstick used for the above figure reveals that 2SF, 5EM, 14EM and 16SF are performing better than their peers, and that 7EM, 11FF and 17EM are in line with their peers. The remaining INMLs fall below their peers in patent filing propensity. Moreover, if we consider that 2SF and 11FF operate in markets with low patenting activity, their superiority over their rivals in terms of intellectual property (IP) registration is merely symbolic.



Source: Calculated by the authors based on EPO data and miscellaneous company information

Figure 1. Comparison between patent filing activity by INMLs and their peers

Secondly, if we look at the depth of the patent portfolios that the INMLs have developed (see Figure 2), 3FF is clearly the most active firm with close to 250 applications, while four firms (4EM, 5EM, 7EM and 14EM) have filed 100–150 patents since their founding. At the other end of the spectrum, we find eight INMLs that have filed no or hardly any patents (1EM, 6SF, 8EM, 9EM, 10EM, 11FF, 15EM and 19SF), while the rest have filed 20–80 patents.

Thirdly, if we look at how patenting activity has evolved among the INMLs since their founding (see Figure 3), we observe that 5EM, 8EM, 12FF, 14EM, 16SF, 17EM and 19SF have stepped up the pace. The 16SF's increase is particularly noteworthy. Although this firm displayed virtually no patenting behaviour in the previous century, there was a clear change of course in recent years. 16SF explained that this change in trend was due to its increasing sales activity in the NAFTA area. This caused it to make its knowledge protection routines more stringent. We heard a similar comment from 12FF, stating that its growing care for patenting had led to its commercial breakthrough in North America.

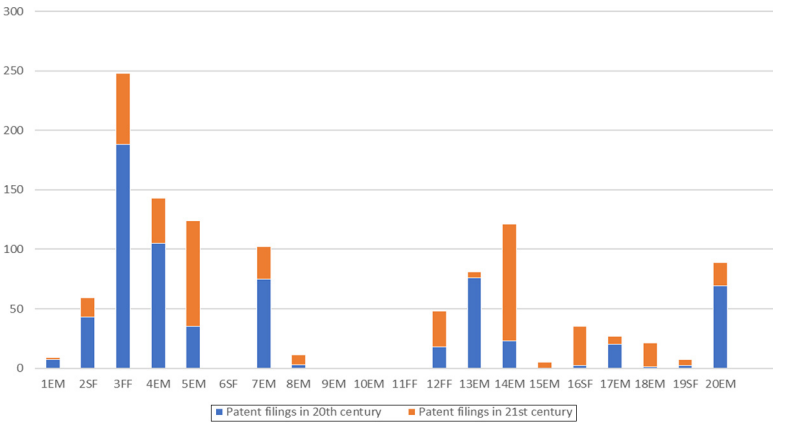


Figure 2.
Number of patent filings on behalf of INMLs

Source: EPO

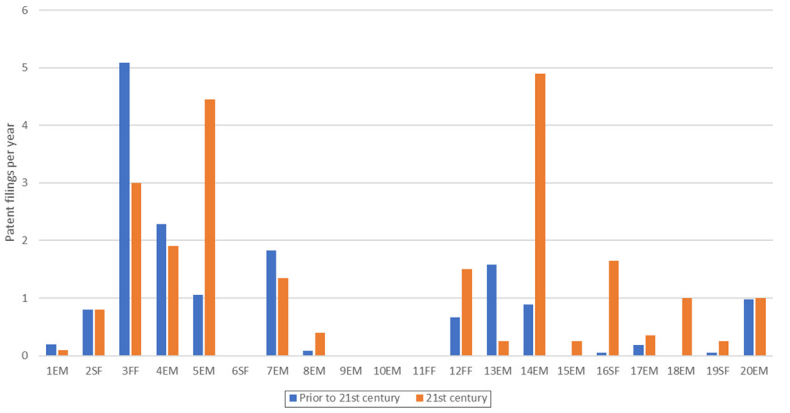


Figure 3.
Patent filings per year during 21st century and before on behalf of INMLs

Source: Own calculations based on data from EPO

Altogether, only 5EM and 14EM made a strong showing in these comparisons, scoring well in all three exercises. In addition, 3FF, 4EM, 12FF and 16SF deserve positive mention, while the remaining 14 cases have rather lacklustre performance in the patenting realm.

4.3.1.2 Diplomacy to influence regulatory standards. In line with the categorization by Ordeix-Rigo and Duarte (2009), the experience of our INMLs sample in influencing quality regulations and standards that govern the products they sell and the markets they operate in is summarized in Table 4:

As per the above inventory, we find that a slight majority (12 out of 20 INMLs) have experience with diplomatic activities in the context of standard-setting for the niche markets they operate in, whereas 8 do not.

When looking at the objectives that the firms pursue via participation in the regulatory forums that prepare and adopt standards for their products and markets, we find two INMLs that participate chiefly for information purposes (2SF: "Our participation in international standardization forums allows us to contribute and stay up to date. These forums serve to find common ground, reach consensus and get to compromises among stakeholders. We do not use it as a lobbying channel or to exert profit-seeking influence.") or to voice the interests and demands of consumers (17EM: "Our involvement in regulatory forums is to make sure that market intelligence guides standardization processes"). These two cases can be interpreted as business diplomacy.

A further ten companies stated that they participate in international standard committees for corporate diplomacy purposes. Consequently, half of the INMLs surveyed use this measure as a (complementary) way to attain technological leadership. Or, as 14EM stated very eloquently: "For us, it constitutes an additional competitive weapon to put peers that are not willing or able to comply with new rules at a disadvantage". Further statements that illustrate this posture came from 20EM: "We use testing procedures that are more stringent than the quality and safety standards that regulatory agencies apply to our sector.

Company	Corporate diplomacy	Business diplomacy	No experience
1EM	X		
2SF		X	
3FF	X		
4EM			x
5EM	X		
6SF			x
7EM	X		
8EM			x
9EM	X		
10EM			x
11FF			x
12FF	X		
13EM			x
14EM	X		
15EM			x
16SF			x
17EM		x	
18EM	X		
19SF	X		
20EM	X		

Source: Compiled by the authors based on survey results

Table 4. Experience of INMLs with diplomacy to influence regulatory standard setting

Standardization committees serve to get recognition for our procedures, to raise the bar and distinguish ourselves from competitors"; and 5EM:

> We actively interact with the international regulatory bodies that set the standards for the sector we belong to, in order to influence the rules and standards to be set as much as possible.

4.3.1.3 Launching technological firsts. As regards the habits of INMLs in terms of launching technological firsts, and how this compares to those of their main rivals, we found Table 5:

Clearly, the INMLs report considerable activity in this area, and almost two-thirds judge that they launch firsts more frequently than their main competitors. In the words of 13EM, launching firsts is a means to cultivate an image of being the technological benchmark for their target markets and to be recognized as a trailblazer. Additionally, 10EM remarked that:

> For standardized products that do not undergo major changes on a regular basis, launching firsts may not be as relevant. However, to position oneself as a flexible actor who pushes the knowledge frontier constantly, launching firsts frequently is important.

Finally, 11FF pointed to the following advantage of launching firsts: "Many companies [(suppliers, customers)] seek contact with us because we are known for regularly launching firsts, which gives us an aura of being dynamic and wanting to explore new fields." See Table 6:

4.3.1.4 Summary. (Table 6)

4.3.2 Supply pre-emption in foreign markets. A strong presence in foreign markets is key to international niche market leadership. Without it, it is impossible to attain a global top three (or continental number one) position in niche markets where demand is distributed across

Company	More or less active than rivals in launching technological firsts
1EM	Slightly more
2SF	Slightly more
3FF	Clearly more
4EM	Slightly more
5EM	Clearly more
6SF	Comparable
7EM	Comparable
8EM	Slightly les
9EM	Comparable
10EM	Slightly more
11FF	Clearly more
12FF	Clearly more
13EM	Slightly more
14EM	Slightly more
15EM	Clearly more
16SF	Slightly more
17EM	Comparable
18EM	Comparable
19SF	Slightly less
20EM	Clearly more

Source: Compiled by the authors based on survey results

Table 5. Comparison between Basque INMLs and their main rivals in terms of launching firsts

Advantage mechanism	Formal measures	Intermediate actions	Informal measures
Establishing technological leadership	Filing patents	Diplomatic activity to influence regulatory standards	Launching technological firsts
Sample performance	Two early movers as outperformers, and one early mover, 2 fast followers and one slow follower with noteworthy performance Altogether six cases out of 20 worth highlighting (30%)	Seven early movers, two fast followers and one slow follower with relevant experience Altogether ten cases out of 20 worth highlighting (50%)	Nine early movers and four diligent followers claiming to be more active in this regard than their main rivals Altogether 13 cases out of 20 worth highlighting (65%)

Source: Compiled by the authors

Table 6. Summary table on establishing technological leadership

borders. To achieve and sustain their international market position, INMLs can adopt different foreign entry modes.

4.3.2.1 Inorganic foreign market entries. The most assertive or decisive way to secure supply capacity to foreign markets is to create production power abroad by taking over existing capacity from peers or by creating a joint production venture with an international partner. The sampled INMLs reveal the following track record in this area up to 2021. See Table 7:

Altogether we find nine INMLs with experience in taking over foreign rivals, and six with experience setting up JVs as a way to expand their international production capacity.

As regards pure-play production asset pre-emption, we have identified the following cases. Clearly, 20EM's takeover its Swedish competitor was prompted by a desire to pre-empt production capacity to serve its focal niche. In other words, it was a move to prevent other companies from snapping up this competitor and becoming a threat over time. In the case of 3FF's latest (Italian) takeover, supply-side pre-emption considerations also played a role, in that the acquired assets and product line were also a target for takeover by other rivals, either incumbents or new entrants. For its part, the acquisition of rivals from Chile and France by 17EM and its joining forces with a peer from France served to merge production capacity and increase the overall global reach of the business conglomerate, to which these transactions led. 19SF's takeovers can be understood in a similar way. It serves a niche that is rather mature, and which is growing only moderately. Therefore, it opted for takeovers instead of creating new production assets to avoid generating overcapacity and putting its own output under price pressure.

The takeovers and JVs by 4EM, 5EM, 7EM and 13EM likewise served to secure access to critical supply assets, but equally reflected market-seeking motives. This was either due to complying with local content rules (e.g. 7EM in the case of Brazil), creating a local/on-site image (e.g. 4EM and 13EM) or following or setting up near a lead customer (e.g. 5EM in the case of Great Britain). In addition, among 2SF's transactions, as well as 3FF's Czech JV, production factor-seeking served as a rationale. 2SF took over several companies in countries that were not always interesting from a sales perspective but offered a good manufacturing base, as well as a launchpad to be competitive in the larger trade blocs of which these countries formed part. 3FF's Czech JV also enabled it to obtain a cost-competitive production base and a highly skilled workforce, whereas its commercial function is to supply other markets.

Company	Takeovers of foreign peers with production plants	Creation of joint ventures with peers to generate production capacity abroad
1EM	0	0
2SF	7 (5 in Latin America, 2 in Asia)	4 (2 in Latin America, 1 in China and 1 in Oceania)
3FF	2 (both in Italy)	1 in the Czech Republic, which was later acquired completely
4EM	3 (1 in Germany, 1 in Great Britain and 1 in the Netherlands)	0
5EM	2 (1 in the USA and 1 in Germany; the latter take-over over brought 2 plants in China along)	3 temporary co-ownerships in Turkey, South Africa and Great Britain. The Turkish plant was closed after four years, the South African plant was exited, while the British plant was acquired completely
6SF	0	0
7EM	1 in Great Britain	1 in Brazil
8EM	0	0
9EM	0	0
10EM	0	0
11FF	0	0
12FF	0	0
13EM	1 in the USA	0
14EM	0	0
15EM	0	0
16SF	0	0
17EM	2 (1 in France and 1 in Chile)	1 with a globally operating French company
18EM	0	0
19SF	5 (1 in Italy, 1 in the USA, 1 in Austria, 1 in India and 1 in Norway)	1 in Thailand
20EM	1 in Sweden	0

Source: Compiled by the authors based on SPRI, miscellaneous company information and desk research

Table 7. Acquisitions and joint ventures by INMLs to create foreign production capacity

4.3.2.2 Licensing- or franchising-based foreign market entries. None of the sampled INMLs stated that it has experience with licensing or franchising operations to enter foreign markets. While it seems logical that industrial firms do not engage in franchising deals, they could license their products or production recipes. However, our sample clearly prefers to keep their product(ion) business close to themselves. In this regard, it is also indicative that several firms argue that their success relies on production process excellence (3FF, 6SF, 14EM and 20EM), and that sharing secrets of how they manufacture is not in their interest. Therefore, this peculiarity also lowers the attractiveness of licensing deals.

Finally, the fact that they have more experience with full-fledged takeovers than with JVs (also. part of their JVs has been of a temporary nature, e.g. 3FF in the Czech Republic and 5EM in several places) likewise indicates their preference for not operating abroad via network arrangements.

4.3.2.3 Organic foreign market entries. When it comes to internal solutions to sustain foreign sales, to start with, INMLs rely heavily on export operations. On average, the sampled firms obtain 84% of their revenue from foreign sales. In all cases, the production centre of gravity is kept at home, and plants in the Basque Country make up the primary

source of supply to foreign markets. In addition, one out of two INMLs has made greenfield investments to create production plants abroad. Table 8 presents the situation of each sample member as of 2021:

For most of these greenfield investments, the main motive was market-seeking behaviour. Nevertheless, in some cases, production factor-seeking also played a role. Specifically, for 1EM the Indian case was motived by skills-seeking; 3FF's greenfield investment in Turkey and 5EM's FDI in Poland were a matter of seizing a good manufacturing base as well as a launchpad to be competitive in surrounding markets, while 8EM's plant creation in Mexico also served as a production platform for the entire NAFTA market. Finally, 14EM's greenfield investment in China served to prevent a key rival turning the Chinese market into a captive one. See Table 9:

4.3.2.4 Summary. (Table 9)

4.3.3 Customer lock-in. Establishing switching costs so that buyers do not escape after a purchase is clearly of interest to INMLs. In fact, if customer relations are not long-lasting but shifting, niche market leadership may come under strain.

4.3.3.1 Exclusive (long-term) contracts and joint investments with customers. Altogether, we found three INMLs that had exclusive relationships or joint investments with customers in place.

The first is 3FF, which successfully pre-empted sales possibilities to one of the largest purchasers of ignition systems for gas cooktops in the world. In fact, the locking out of rivals

Company	Export share from home base (%)	Greenfield production plants abroad
1EM	95	1 in India
2SF	85	3 (1 in the USA, 1 in Brazil and 1 in Argentina)
3FF	95	4 (1 in Mexico, 1 in Brazil -which was meanwhile closed, 1 in Turkey and 1 in China)
4EM	95	2 (1 in India, which meanwhile has been stripped and turned into a service centre, 1 in Romania whose production capacity does not serve 4EM directly anymore)
5EM	75	6 (1 in Francia, 1 in Poland, 1 in Brazil, 1 in Argentina, 1 in the USA and 1 in China)
6SF	95	0
7EM	75	1 in China
8EM	95	2 (1 in the USA and 1 in Mexico)
9EM	85	0
10EM	85	0
11FF	50	0
12FF	90	0
13EM	80	0
14EM	85	2 (1 in China and 1 in Brazil)
15EM	52	2 (1 in the USA and 1 in China)
16SF	85	0
17EM	75	3 (1 in France, 1 in Argentina and 1 in the USA)
18EM	95	0
19SF	95	0
20EM	95	0

Source: Compiled by the authors based on SPRI, miscellaneous company information and desk research

Table 8. Exports and foreign direct investment by INMLs to supply foreign markets

Table 9.
Summary table on pre-empting or securing critical assets to supply foreign markets

Advantage mechanism	Formal measures	Intermediate actions	Informal measures
Pre-emption of or securing critical assets to supply foreign markets	Inorganic foreign market entries	Licensing or franchising-based foreign market entries	Organic foreign market entries
Sample performance	9 INMLs executing 21 takeovers 6 INMLs setting up 11 JVs (of which 2 INMLs dissolved some of their JVs) As such, 45% of the sample firms have used inorganic entry modes to supply foreign markets	0 cases with experience in this area (0%)	10 INMLs with 26 cases of production FDI abroad As such, 50% of the sample firms have employed organic entry modes to supply foreign markets

Source: Compiled by the authors

from sales relationships with this purchaser had such a significant impact that one of its competitors was left with so little market share that it decided to divest this product line. This prompted 3FF to snap it up (its most recent Italian acquisition, mentioned in Section 4.3.2) and take on the customers that this peer had been serving. As such, this represents an example both of pre-empting sales relations and of internalizing overall supply capacity. Interestingly, 3FF also stated that its patenting activity serves to offer exclusive novelties to its principal customers, and that this is also a way to lock them in.

The second case is 16SF, which managed to secure exclusivity deals for its crankshaft machining tools with two of the largest car makers worldwide. In both cases, they went through an intensive period of co-development with the plant engineering and production operations departments of these original equipment manufacturers (OEMs). Once these machining tools were considered suitable for use and the central purchasing units of these OEMs issued a call for crankshaft production equipment at their plants, 16SF won a string of these tenders and built up a hegemonial position within the factories of both car builders. Although the development of these crankshaft machining centres was not a literal case of joint (monetary) investment, both OEMs dedicated much time to steering their development and also adapted their production lines to accommodate these machining centres. Therefore, the operational commitment to these machine tools lodged the OEMs in a long-term relationship with 16SF. Over time, 16SF was permitted to offer variants on its crankshaft machining centres to other car makers, which allowed it to set an industry standard and capture almost two-thirds of the market in this niche.

The third company that used formal measures – in the form of joint investments – to lock in key customers is 12FF. 12FF regularly undertakes innovation activities that are customer-specific. This type of market-led research and development (R&D) is typically guided by the customer and requires substantial investment of time and financial resources on both sides. It has led 12FF to obtain several exclusive contracts with car industry OEMs for core shooting machinery. These co-development projects provide it with an effective formula for long-term commercial certainty.

Although\ other INMLs also have experience with customer-centric product development, none of them saw this leading to an exclusive commitment by the customer, or an up-front earmarking of customer resources for a common goal.

4.3.3.2 Taking over in-house operations from customers or providing ongoing services to them. Two experiences stand out in this area. The first example is from 14EM, which convinced a group of not-yet customers to entrust the production of thermocouples to the firm:

> For quite some time, our "competition" could be divided into peers and potential customers with in-house production capacity for the products we manufacture. We'd try to coax the latter towards ceasing their internal production and focusing on their real core business. When they agreed, we would often take out their machinery and reuse it if suitable.

A second experience comes from 11FF. This company has been encouraging the tinned food industry to outsource offset printing operations for metal tins in a very proactive manner via custom offerings. This has resulted in, among other things, 11FF taking over proprietary lithography activities from European subsidiaries of the largest metal food tin producer in the world. To respond to the outsourcing wave this generated, 11FF created dedicated lithography lines for several of its biggest customers in its factory. This translated into a clear synergy between crowding out sales opportunities for rivals and establishing captive relationships with key customers. Moreover, the speed with which 11FF scaled up its production capacity enabled it to capture considerable market share.

In addition to the former cases, 3FF and 15EM indicated that they are campaigning to make customers see that their capacity to conduct R&D and introduce improvements to their core products is greater than what their users are capable of. Consequently, they argue that customers would be better off transferring their in-house production to a specialized supplier. Both firms state that they have achieved some successes in this area.

Finally, as regards service contracts through which INMLs can provide ongoing support for their customers' internal value creation processes, we found no signs whatsoever. In general, the sampled companies obtain a very low percentage of their revenue from service provision. Moreover, their income from service businesses stems largely from delivering spare parts and doing repairs or maintenance, but certainly not from ongoing operational support for their customers. As such, their *modus operandi* is to build and transfer, not operate; and their degree of "servitization" is very moderate.

4.3.3.3 Customization of value propositions and responsiveness to customers. Flexibility and responsiveness to customer needs clearly serves as a game plan for many of the sampled INMLs. Similarly, participating in new product development endeavours that customers undertake is a much-practiced strategy by the INMLs. Several firms provide descriptions of this type of (exploratory) experiences, which mostly take place under a no-formal-ties scheme.

For example, 9EM, 11FF, 12FF, 16SF and 20EM noted that they work with customers who experiment with them to address product or technology challenges. Similarly, 1EM, 5EM, 11FF, 12FF and 20EM mentioned working with customers who propose "outside the box" assignments, which they take on to strengthen relationships with customers and gain prestige among them.

1EM commented the following in this regard: "Since we are considered a leader in our field, customers want us to discuss new product possibilities with them". Likewise, 9EM asserted: "We experiment a lot with customers to discover new frontiers in our business". In a similar vein, 20EM declared:

> We like to be challenged by our customers, enter unexplored territory and deal with assignments that ask for things that have never been done before. Not because we are daredevils, but because we know we are at the top of our game and customers recognize this.

Getting involved in innovations that customers pursue is not only positive for INMLs capacity to innovate, but it also raises their commercial chances once customers decide to put new creations into (mass) production. See, for instance, this statement from 6SF:

> Certain customers engage us early on when they start developing new products. This allows us to participate in the design and test phases before such products are prepared for mass production. Consequently, we obtain insights into how to comply with all sorts of product and performance specifications. Thus, when customers include these specifications in their calls for tenders, we typically have a head start on others.

20EM added to this that using proprietary machinery can generate the same effect on customer purchasing behaviour:

> We compete on the basis of proprietary designs for customers, but also based on using unique production equipment. As part of our machinery is self-designed, we can offer features that no-one else can provide. Sometimes a contractor even details the machining abilities to be deployed for specific end products. This kind of stipulation typically goes in our favour.

Willingness to provide small series or unique pieces of equipment, as another form of responsiveness, is also a card that certain INMLs play in their attempts to respond to customer requests. 13EM concludes that its specialization in smaller product series allows it to compete better in niche markets and be more attractive to customers that have particular needs:

> If customers approach a major producer of electrical discharge machines with special requests, they won't be met with the same predisposition to develop tailored solutions as they get from us.

Rapid response to customer demands is also a trump card in this regard, as 5EM testifies:

> Our company has short lines to the top, and fluid decision-making mechanisms. If we get a request from a customer that has strategic business potential for us, and which requires consultation with our CEO, the decision can be one phone call away. We certainly don't have to wait for the next executive board meeting to bring it to his attention, which can be the case among our rivals.

Furthermore, 3FF provided the following insight:

> Our customers do not look to suppliers from a mere production capacity perspective to supply them with standardized products across the globe. Instead, they select suppliers that can customize a core product and finish it in a locally responsive manner for different parts of the world.

As such, 3FF illustrates how differentiation based on local responsiveness in multiple places around the world is key to leading in its niche. Consequently, it created branch locations in various places, which are instrumental for the firm to be better acquainted with a variety of user preferences across the planet and come up with user-responsive products for a variety of markets (see Table 10).

4.3.3.4 Summary. (Table 10)

5. Discussion and implications

5.1 Discussion

5.1.1 Entry timing. The share of companies from our sample that achieved market leadership as an early mover is more than double the number that got there via diligent following. As such, they followed a proactive market strategy; a variant of what Ottosson and Kindstrom (2016, p. 120) call an aggressive market strategy. Rather than inferring that

Advantage mechanism	Formal measures	Intermediate actions	Informal measures
Locking in key customers or pre-empting access to them	Exclusive (long-term) contracts and joint investments with customers	Taking charge of in-house operations from customers, or providing ongoing services to support them	Customization of value propositions and responsiveness to customers
Sample performance	3 INMLs applying these measures As such, 15% of the sample has employed this method to lock in key customers or pre-empt access to them	4 INMLs applying these measures As such, 20% of the sample has used this method to lock in key customers or pre-empt access to them	9 INMLs clearly applying these measures Arguably, others do the same, but in a less pronounced fashion As such, 45% of the sample has employed this method to lock in key customers or pre-empt access to them

Source: Compiled by the authors

Table 10. Summary table on locking in key customers or pre-empting access to them

this supports the postulations of Lieberman and Montgomery (1998) instead of those of Markides and Geroski (2005), this finding may be influenced by the product and market specificities of our sample. While Markides and Geroski (2005) focused on firms operating in large (FMCG/B2C) markets, our INMLs operate in B2B niche markets.

Consequently, we imply that moving in early and seizing FMAs may work better in a niche market setting than in a larger market and/or one that has more public exposure. One reason for this is that markets that move large product volumes provide more windows of opportunity for (later) market entries and for alternation of leadership, as their formative stage and growth path are longer and their visibility is larger. They may thus attract more contenders over time. Therefore, being present in a niche market from the start can be more of a determining factor for leadership than it is in mass markets. Moreover, if a niche does not grow to large proportions or the demands of buyers remain difficult to meet, diligent follower opportunities like seizing dominant standard-setting (Tegarden *et al.*, 1999) and economies of scale dynamics (Suarez and Lanzolla, 2005) may not come into full effect. This then further protects incumbents from new entrants and rewards first movership. It also explains why hidden champions and niche players often do not see a proliferation of competitors in their niche markets (Hezar *et al.*, 2006; Toften and Hammervoll, 2009; Schenkenhofer, 2022).

Accordingly, if developing relationships with potential customers requires high levels of customer intimacy, it fosters leadership chances for specialized players that focus on depth instead of scale with regard to B2B relations (Zack, 2005). Such customer relationship development typically requires building up trust with buyers (Ghemawat, 1986). This tends to be a laborious activity, and if niche market exploitation requires a (long) ramp-up period, it will make opportunistic competitors disregard them. By extension, provided that niche markets stay within a certain limit (e.g. of sales volume) and do not grow too fast, the chances of early movers prolonging their market leadership improve (Simon, 2009, 2012). It then also provides them with good possibilities to exploit their differentiation skills and to adjust value propositions in function of evolving customer preferences (Nenonen *et al.*, 2020).

Finally, as regards the postulation that niche markets spark little interest among big rivals (either at an early or later stage) by authors like Audretsch *et al.* (2018), our observations add some nuance to this claim. While it is true that economies of scale are

difficult to achieve in a niche, we did discover that the majority of the INMLs from our sample compete against large rivals. These rivals are generally diversified firms with a stake in many markets. In such cases, an advantage that specialized companies, like INMLs or hidden champions, have over such larger firms is their focus on the niche in question, whereas the generalist or mainstream market supplier has to spread out its resources, interests and scope of attention over a much broader portfolio of markets.

5.1.2 Mechanisms adopted to attain and sustain market leadership. H1 is confirmed, as we see how our sample clearly makes more use of informal mechanisms to display their technological leadership. The launching of firsts, as well as the use of diplomatic action to sustain their technological command, is much more widespread than the registration of patents for this purpose. This is congruent with Schenkenhofer's (2022) observation that niche markets provide fewer opportunities for product imitation, and this may be why we see low patent activity among our INMLs. A lower propensity for imitation can also be linked to a need for product customization and the development of intimate customer relationships in niche markets (see *H3*), which foster customer lock-in and competitor lock-out situations. One of our case firms illustrated this by stating:

> Acting in a niche provides us with a sense of protection. If we operated in a bigger market, we would have to step up our patenting activity because we would be more under attack. (13EM)

Although our findings are in line with the above-cited references, they are at odds with the observations of Simon (2009) and Rammer and Spielkamp (2019) that hidden champions patent substantially. This may be true when comparing them with bigger (stock-listed) companies, or within the German context. However, this was not confirmed when comparing our sample of Basque INMLs against their direct – and usually foreign – competitors, which in general were bigger and also more diversified. It should also be noted that Rammer and Spielkamp (2019) equally stress that hidden champions rely heavily on informal protection methods, underlining the value of tacit, not-so-obvious knowledge embedded in the firm itself and in buyer–supplier relationships, and this something we observed (see *H3*). To a certain extent, such bonding may be used in lieu of patenting by INMLs.

The finding that launching firsts is more common among our INMLs than patenting is also in line with the fact that customization and differentiation are key to many hidden champions' competitive strategies. Such strategies lead to incremental rather than radical innovations (Din *et al.*, 2013) or to performance-enhancing process innovations (Rammer and Spielkamp, 2019). These can be shown off by presenting firsts but are less suitable for patenting.

Finally, the diplomacy angle we have explored as a way to support technological leadership opens up an additional perspective into how market leadership can be attained and defended, and how the rules of the game can be influenced in niche markets (Afuah, 2009). It certainly shows that INMLs use diplomatic activity to set new standards or alter them (Ordeix-Rigo and Duarte, 2009; Doganova and Karnoe, 2015; Kamp, 2021). Clearly, this represents a more subtle, regulatory method of defending their competitive advantages compared to registering patents. The fact that so many of our sample members engaged in this activity may come as a surprise, as hidden champions tend to stick to their knitting (Simon, 2009), and public affairs is not part of their core business. At the same time, tackling such issues may be in line with their attitude to only outsource what others do better, while taking responsibility for tasks with a lot at stake (Audretsch *et al.*, 2018).

H2 can only be partly confirmed. On the one hand, we do see a strong reliance on organic, greenfield foreign market entries. On the other, however, we observe considerable

experience with takeovers and JVs to enter foreign markets. The common denominator between these informal and formal entry modes is that both ensure vertical integration and considerable control (Audretsch *et al.*, 2018). As such, they can be viewed as two sides of the same coin. Relying on own assets, in the form of either own-created, co-created or acquired production capacity abroad, allows them to retain a high degree of control. Interestingly, such control also helps the INMLs in safeguarding their technological advantage and product quality (Witt, 2010; Witt and Carr, 2013 – *H1*) and in managing direct customer relationships (Simon, 2012 – *H3*).

Interestingly, when looking at the foreign markets that our sample of INMLs entered, we can discern synergies between the geographic markets that they move into and being an early mover and a technological leader on those markets (see *H1*), and with customer bonding strategies (see *H3*). Cases in point for the first type of synergy are 3FF, 5EM and 14EM, which actively screen the world for markets where more stringent quality and safety rules will be embraced, enabling companies that already comply with the standards of advanced markets to have an advantage. Similarly, they advocate for the adoption of strict quality and safety measures by emerging market governments to create a gateway for their own technological solutions and extend their global coverage. As regards customer bonding strategies, we saw follow-the-customer internationalization moves by 3FF via a wholly owned subsidiary in Mexico and a take-over in Italy, and 5EM in the form of its British JV.

When focusing on the use of JVs, almost a third of our sample has experience with that foreign entry mode. This is clearly higher than earlier inventories by Simon (2009) and Witt and Carr (2013) revealed. Although some of the JVs of our sample members are meanwhile terminated, the sheer number they initiated may hint at a declining aversion to this form of high-equity entry mode among niche players and hidden champions.

Our findings also reflect logics of transaction cost economics, in the sense that our INMLs provide knowledge-intensive solutions (as a sign of asset specificity) and, as such, their preference for high-control entry modes makes sense (Williamson, 1991; Brouthers and Nakos, 2004).

Our empirical data support *H3*, revealing a clear tendency among the sampled INMLs to lock in key customers via informal measures. It is worth noting that our results may be somewhat skewed in the sense that if an INML does not manufacture and sell products in mass quantities, it does not make much sense to enter into long-term contracts. And as our sample contained many durable goods producers and firms that make custom products following project-based order intakes, this influences our findings. The few instances that did apply formal measures to lock in customers or pre-empt access to them were indeed firms that produce in larger quantities, customize semi-standardized products and sell them in substantial batches to their respective customers (e.g. 3FF, 11FF and 14EM). Thus, while hidden champions or INMLs are known to produce premium goods, and customization is an important part of their competitive game plan, the degree to which we are looking at a sample that produces such goods in mass quantities or in single or few units surely influences the extent to which they apply (in)formal measures to lock in customers.

Interestingly, we again observe certain practices where synergies between locking in customers and pre-empting supply capacity coincide. For example, 14EM and 11FF both combine the transfer of production activities from customers to their facilities (*H2*) with establishing a captive relationship with such customers (*H3*). Additionally, 3FF stated that part of its patenting activity (*H1*) is driven by its aim to land long-term contracts (*H3*). Similarly, 16SF's landing of serial contracts with two lead users not only served to lock in these customers themselves (*H3*) but also to set itself up for technological leadership with a wider user audience (*H1*).

By far the most common mode of locking in customers is to demonstrate superior responsiveness and customization, discussing new product development processes with potential customers from an early stage, and cooperating and co-creating with customers (long) before a new technology or product becomes market-ready. This has also been observed by Rammer and Spielkamp (2019), who state that hidden champions combine a "technological leadership" strategy (*H1*) with a customization strategy by emphasizing customer-specific solutions (*H3*). Similarly, Schenkenhofer (2022) asserts that in narrow niche markets, suppliers and customers are exposed to a high degree of interdependence and often work together in close contact on a long-term basis.

Arguably, the less INMLs deal with standardized products, technologies and knowledge, the more important buyer–supplier bonding to develop a mutual mastery of tacit insights becomes. Altogether, this generates a safety net for the insiders that creates reciprocity and mutuality among them, allows them to lower their defences and alleviates the need to apply more formal protection measures and incentivises them to apply high-equity control modes for their (international) operations.

The virtuous "circle" illustrated below thus helps to explain why so many of the INMLs that we reviewed remain a market leader over time: long-lasting buyer–supplier relationships and customer loyalty, built on shared trust and tacit knowledge, can be ensured much more effectively in their niche markets than in FMCG/B2C markets, where the producer–consumer relationship can be rather anonymous and fleeting, and may thus also lead to more market leadership changes and diligent follower advantages (Figure 4).

5.2 Implications

5.2.1 Managerial implications. The tendency of the reviewed INMLs to embrace informal measures to leverage advantage mechanisms may be endemic to their species. It may also represent a weakness in the way they forge and defend their competitive advantages. Consequently, in the realm of establishing and defending technological leadership, stronger use of IP registration by INMLs may be advisable (Kamp, 2017). As regards the setting up of supply capacity abroad, we already observed considerable employment of formal measures in the form of acquisitions and JVs. Therefore, our sample companies may already be on track to embrace formal measures when it comes to building up foreign production capacity.

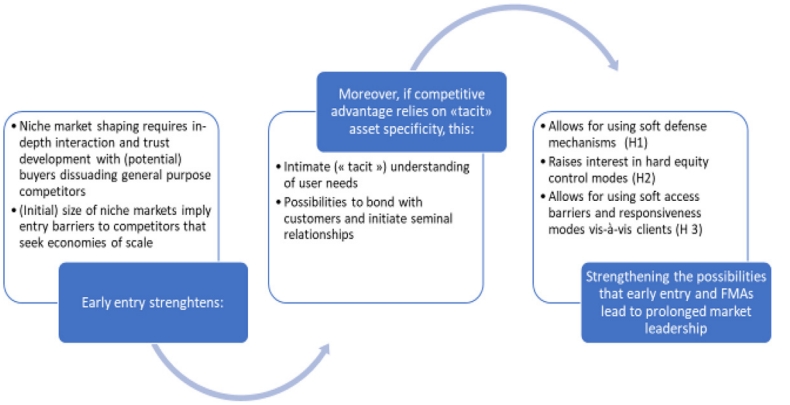


Figure 4.
Links between INML modus operandi, FMAs and prolonged leadership in niche markets

Source: Compiled by the authors

Interestingly, all the takeover and JV activity started around the turn of the century or took place in the 21st century. This may entail that these formal entry modes will gain more momentum in the future. Similarly, as a step beyond production capacity development abroad, INMLs may also become concerned with amplifying their R&D activity across the globe as a way to develop "insidership" in major foreign markets (Venohr and Kamp, 2019). 3FF's experience with providing local responsiveness to customers in different markets across the world certainly supports the idea that such insidership development is important. When it comes to locking in key customers, the surveyed INMLs thrive mostly on customer intimacy practices. This seems to be intrinsic to operating in premium niche markets (Audretsch *et al.*, 2018). Nonetheless, INMLs should not neglect bonding with customers in more formal manners, for instance, through joint investments or by taking over activities previously performed in-house by customers. In this regard, developing service business to support product sales is an avenue to be explored (Kamp, 2018).

5.2.2 Implications for policymakers. Hidden champions and INMLs can be important sources of technological progress and economic value for the localities that host them (Rammer and Spielkamp, 2019; Kamp, 2019). However, due to their traditional low profile and the fact that they are not always the largest firms around, they may not get the attention they deserve from policymakers. Consequently, policy support programmes with an explicit focus on these firms are a rare sight, the Basque business internationalization plan for 2017–2020 being an exception [7]. Because our work has revealed that INMLs have a general tendency to safeguard their market position and competitive advantages through informal measures, it may be advisable also to raise their awareness around considering some of the more formal measures and intermediate actions shown in Table 2, fostering their propensity to patent and take more decisive action when it comes to locking in key customers or pre-empting access to them. Particularly as (niche) market contexts are also becoming increasingly subject to volatility and uncertainty (cf. volatile, uncertain, complex and ambiguous).

6. Limitations and avenues for further research

The findings in the present paper emerged from exploratory research on a sample of INMLs from a limited geographic setting. They serve to advance theory-building and conceptualize the behaviour of INMLs or hidden champions in the realm of FMAs/SMAs. In addition, they help seeing through differences between niche market logics and those that govern larger market spaces – particularly as regards attaining and defending market leadership. However, they are at best indicative and our findings and the implications we arrive at require further research and testing, i.e. through in-depth case studies, longitudinal/panel analyses and quantitative exercises on larger samples of INMLs, the development of their market positions, their entry timing and the advantage mechanisms used. In this context, we can suggest both limiting sample variety from a sectoral perspective (e.g. focus on INMLs/hidden champions that are active in a similar industry) and broadening the variety from a geographic perspective (e.g. put together a sample made up of cases from different – European – regions or countries). In addition, we see possibilities for sharpening the analyses presented here by focusing on companies that either run large or short production series, operate in markets with few or many competitors (cf. Herfindahl index), and deal with a concentration or fragmentation of demand (cf. Pareto rule with regard to sales/customers). Given that we sourced our cases from a specific territory, it is also fair to point out that our results may be place-based and not so generalizable. The Basque Country is home to a highly industrialized and internationalized economy, and its industry thrives on suppliers that form part of B2B value chains, while the Basque economy does not include (many)

value chain masters or OEMs that integrate end products to final customer markets. Hence, the findings and implications will be less applicable to regions with a more tertiarized economy and/or to regions that do contain industrial gatekeeping firms to end markets. There are two more peculiarities of the Basque economy that may curtail the applicability of our results to other geographies. The Basque Country is a high-trust society (Hoyt-O'Connor *et al.*, 2022) and one with a rather conservative attitude towards financing growth and other business transactions (Kamp, 2020;). These features may contribute to an overriding preference for informal measures to leverage advantage mechanisms, as we found among our sample of INMLs.

Notes

1. From own experiences with third-party databases that contain questions like: "Please state the market share of your company in your main market", we learned that respondents sometimes interpret "market" as a geographical construct (f.i. pointing at the country in which they sell most of their output), in function of the product range they commercialize (for a white line producer this can be washing machines, refrigerators or dishwashers, for example), as a demand side construct (who is using the products that a company manufactures? For instance, for a carton producer, this can be the packaging business, decoration companies, do-it-yourself outlets, [. . .], or as a sales channel construct through which companies commercialize their value proposition (retail shops, on-line sales, wholesale, [. . .]. As such, answers can all refer to market share, but based on markets that are totally incomparable. The risk that such problems arise increase with the scale of surveys, even despite the fact that such surveys often come with a manual that explains how each question should be interpreted and answered.
2. Eye-catching in the sense that (although it is a niche player in a B2B market, which does not sell to private end consumers) most people will have set eyes on the company's products while in traffic.
3. www.euskadi.eus/web01-s2oga/es/contenidos/noticia/descubre_euskadi_2006_3/es_industri/industria_vasca.html&https://www.euskadi.eus/gobierno-vasco/contenidos/noticia/introduccion_lideres/es_introduc/lideres_introduccion.html
4. It is true that this goes against Simon's claim (2009) that hidden champions are highly active in registering patents, something that Rammer and Spielkamp (2019) confirm. However, one must realize that Simon (2009, 2012) considers companies with annual revenue up until €5bn, and Rammer and Spielkamp (2019) consider firms that employ up to 10,000 persons. Hence, there is the risk of a size effect when it comes to measuring patenting behaviour in such samples, and that an above-average propensity to patent is more related to the bigness of a portion of the companies sampled by the former authors than to the specificities of companies operating in niches.
5. When 15EM launched its solar tracker, it represented a technology shift for solar panel farm operations, as it entailed a leap from mechanically driven repositioning systems to using electronic lightweight devices.
6. Factoring in the number of employees is important because the size gap between INMLs and their rivals can be huge. In fact, many INMLs compete against large, diversified firms which operate in the niche market that our sample members are specialized in – while these larger rivals are also active in other markets.
7. www.spri.eus/archivos/2018/02/pdf/Plan_Internacionalizacion_2017-2020_Pais_Vasco_Final.pdf
8. EM = early mover, SF = slow follower, FF = fast follower.

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Corresponding author
Bart Kamp can be contacted at: bart.kamp@orkestra.deusto.es