

Entrepreneurship in Focus

Förderkreis Gründungs-Forschung e.V. (FGF) and IfM Bonn

01/20

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What makes the Hidden Champions so successful?

Summary

Internationalisation and R&D activities characterise Hidden Champions. Their strong entrepreneurial intent to maximize market shares is another key feature. Obviously, Germany's institutional framework conditions are also decisive for the emergence of this type of companies. It is important to reduce existing trade conflicts in future.

Germany is well-known for its large number of hidden champions which are market leaders in Europe and/or are among the top 3 worldwide. Depending on the definition, approx. 1,500 to 1,620 out of all 3.5 million German enterprises can be classified as hidden champions (Venohr 2015; Simon 2012).

Despite their small share of 0.04% of all companies, this group is of fundamental importance for the German economy: on average, these international market leaders generate an annual turnover of 326 million euros and employ approx. 2,000 individuals worldwide (Simon 2012). Since the early 1990s, Hermann Simon has been a leading investigator of the hidden champions phenomenon not only in Germany but also worldwide. His observations contribute significantly to our understanding of these companies; yet his research mainly addresses practitioners.

Therefore, characteristics of hidden champions compared to non-hidden champions have rarely been empirically validated in depth – much less with the help of econometric methods. However, such methods, which allow the simultaneous use of various influencing factors, are essential to ensure that potential determining factors do not influence each other and thus distort results.

Therefore, we would like to resolve first and foremost: How do hidden champions differ from non-hidden champions? We examine this question on the basis of survey data from a previous study which focused on fast-growing companies with at least 10 employees (Schlepphorst/Schlömer-Laufen 2016). In a further step, we investigate the question why this company type is so common in Germany.

Four main characteristics of hidden champions

Our results show that hidden champions differ from other companies by four key characteristics.

Expectedly, the strongest influence is international business activity. Research and development activities and the goal of maximising market share also play an important role. In addition, the efforts to improve technological processes also contribute significantly to the probability of belonging to the group of hidden champions.

However, our study does not confirm a significant influence of other influencing factors that have been attributed a key role in previous research (e.g., vocational and continuous training measures). There are two exceptions: The employment size of a company is positively correlated with the probability of having an international market leadership position. This illustrates that market leadership is generally not a phenomenon of small enterprises. A certain size is needed to meet the market requirements at international level. Furthermore, the results show that manufacturing companies have greater chances of belonging to the group of hidden champions than companies in the service and distribution sector.

Public funding plays no role, ...

Interestingly, our research shows a negatively significant correlation between the use of public funding and the probability of being a hidden champion. Specifically, this means that companies already established as hidden champions do not place particular value on publicly available funding. We can only speculate about the reasons, but in the end it can be assumed that a) the public funding measures do not match with the specific needs of the grown hidden champions (any longer) and/or b) they have no need for funding measures (anymore) because they can act more independently due to their superior (market) position.

... but the framework conditions do

The large number of hidden champions in Germany indicates that positive framework conditions must have been successfully created in the past fostering their development. Well known is the dual apprenticeship system which is typical for Germany and which benefits all companies. Lesser known are the (semi-)public support institutions in the fields of „research and development“ and „internationalisation. With a view to our research results, they obviously seem to have an important role in bringing forth hidden champions.

Public research institutions such as the Fraunhofer, Leibniz and Helmholtz Institute as well as the Max Planck Society support companies through technology transfer and the co-development of cutting-edge innovations. All institutions are involved – to varying degrees – both in publicly funded (pre-competitive) basic research and in (paid) application-oriented contract research. For example, Fraunhofer is marked by a flexible, performance-oriented financing model: Every euro it earns through contract research is added up with one euro from public basic funding.

The German Chambers of Commerce Abroad (AHKs), together with the German Chambers of Industry and Commerce (IHKs), support all enterprises in Germany in their internationalisation activities: Together they identify market opportunities in the target country. In addition, the semi-public institutions support the companies in establishing contacts with potential business partners and in identifying risks in all phases of internationalisation. The foreign trade agency „Germany Trade & Invest“ (GTAI) offers companies a wide range of country-, market- and sector-specific information and analysis. Furthermore, GTAI points out potential market opportunities to companies.

Implications for economic policy

Economic policymakers face the task of adapting the framework conditions and public support measures in a way that enterprises in Germany can cope well with current and future challenges, such as digitalisation and shortage of skilled workers. For this reason, we recommend targeted measures provided by (semi-)public support institutions which are in principle available to all interested companies for their development. For example, regional competence centres are suitable contact points for all questions regarding digitalisation and securing skilled workers.

However, specific support for selected companies as (up-and-coming) hidden champions does not seem to be appropriate. Although we know what the success of hidden champions is based on, they cannot be identified in advance. A decisive factor – in which they also differ significantly from non-hidden champions – is their strong will to maximise market shares. The basis for this is their endeavour to lead the market with their core competence: Market niches are deliberately chosen and occupied globally. This requires determination, courage and perseverance on the part of the entrepreneurs – qualities that are difficult to identify ex ante.

Finally, not only positive domestic framework conditions for all companies play an important role in the promotion of hidden champions, but also the termination of smouldering trade conflicts. These conflicts do not only raise the threshold for companies' internationalisation activities, they also cause uncertainty and increase the costs of foreign trade activities. If these factors continue to exert a negative influence on the tapping and maintenance of foreign markets, they will act as barriers to the preservation and emergence of German world market leaders. Thus, a foreign trade policy which guarantees long-term stable, positive framework conditions and planning security is therefore of central importance for the success of hidden champions.

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Further Studies:

Schlepphorst, S.; Schlömer-Laufen, N.; Holz, M. (2020): Determinants of hidden champions – Evidence from Germany, in: BUECHLER, Jan-Philipp / DENG, Di (Eds.) Global Compendium of Hidden Champions – Cases & Texts, Springer Gabler, forthcoming.

Simon, H. (2012): Hidden Champions – Aufbruch nach Globalia: Die Erfolgsstrategien unbekannter Weltmarktführer, Frankfurt and New York.

Venohr, B. (2015): Das Erfolgsmodell der deutschen Weltmarktführer, in: Langenscheidt, F.; Venohr, B. (Eds.): Lexikon der deutschen Weltmarktführer, Köln, pp. 14–31.

Imprint

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