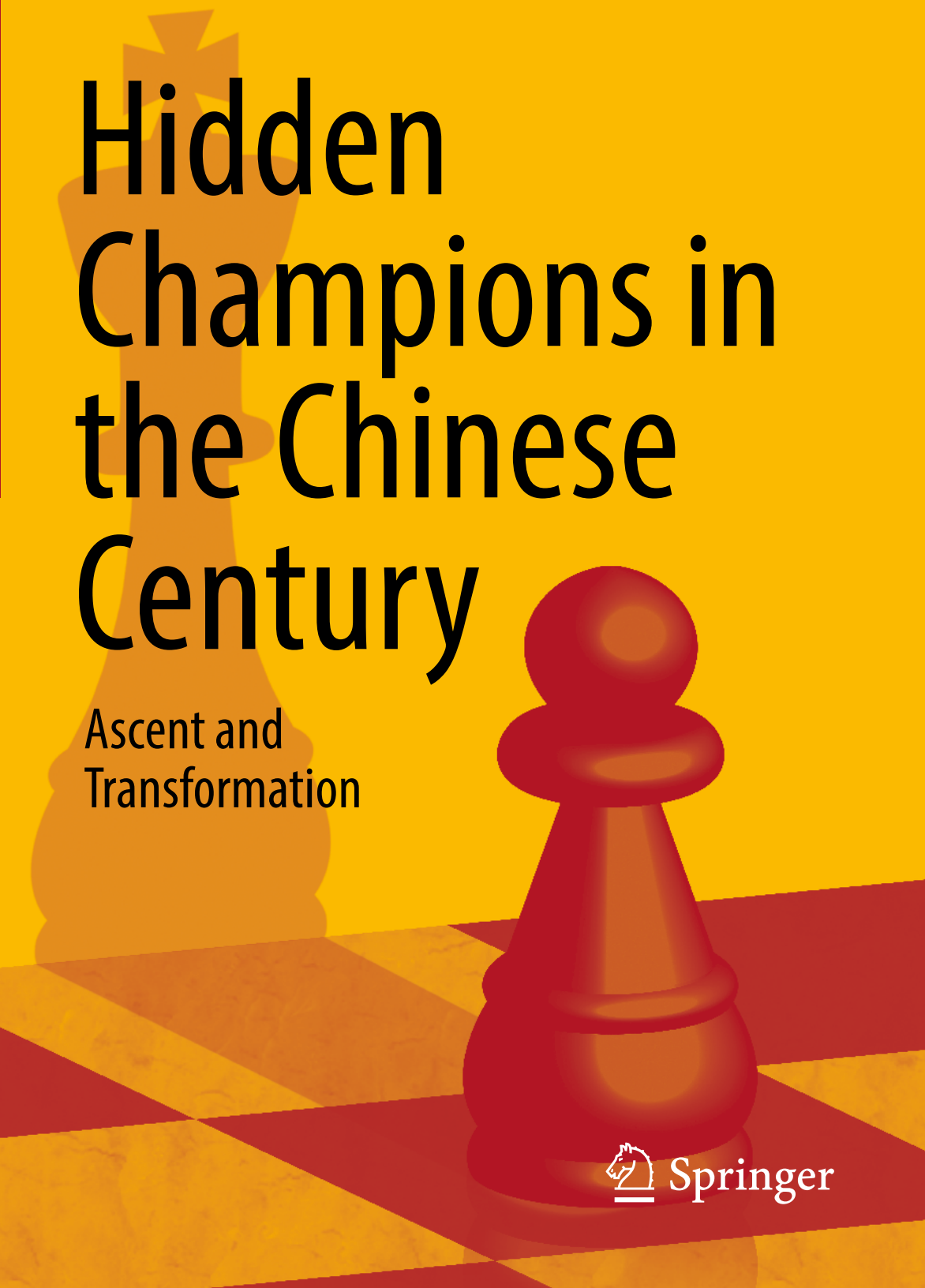
Hermann Simon

Hidden Champions in the Chinese Century

Ascent and Transformation



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Part I

The Concept and Its Reception

1

A Brief History of the Hidden Champions

"Why are German companies so successful at exporting?"

Harvard Professor Theodore Levitt asked me that question at a meeting in Dusseldorf in 1987. The previous year, Germany had become the world export champion for the first time, a spectacular success that he wanted to understand. He was very interested in the competitiveness of countries and companies and had recently popularized the term "globalization" through a highly regarded article in the *Harvard Business Review* [1].

The quest to answer his question evolved into a decades-long wave of research that led to the coining of another popular management term: Hidden Champions. If you search "Hidden Champions" on Google you get 1.75 million results [2].

The term did not exist in 1987 when Levitt asked me about the reasons behind Germany's export success. At that time, most people associated the German export performance primarily with large corporations such as Bayer, Siemens, Daimler, Volkswagen, Bosch, or E. Merck. These giants were already very successful exporters in the twentieth century. Like many other large German companies, they had been building international distribution networks since the nineteenth century. Bayer had entered the US market as early as 1864, and Bosch achieved more than half of its sales abroad before World War I. Siemens has been active in China since 1872. By comparison, small- and medium-sized enterprises (SMEs) were only beginning to internationalize in the 1980s.

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Mittelstand

It is interesting to look at Professor Levitt's assessment of the prospects for the *Mittelstand* (the German phrase to describe the SMEs). At the conference in 1987, journalist Peter Hanser from the magazine *Absatzwirtschaft* interviewed Levitt and me and asked: "One problem of German industry is the large number of mid-sized companies with a high export share. Is global marketing a strategy for these companies?"

Levitt replied: "All companies started small. It is primarily the larger ones that have survived. The smaller family businesses, on the other hand, are struggling to survive" [3]. He was skeptical about the globalization opportunities for SMEs and saw large companies as the clear winners in the intensifying worldwide competition. Some 80% of all German companies belong to the Mittelstand, including craftsmen or the bakery on the corner. Most of them do not export. At the time, no one was thinking about the phenomenon of Hidden Champions.

The Discovery

While wrestling with Levitt's question, I noticed that a considerable number of Mittelstand companies were rapidly growing world market leaders whose contribution to German exports was steadily increasing. Could these SME market leaders explain Germany's extraordinary export performance? How many of these market leaders existed in Germany? How crucial were they to Germany's export success? And what were their strategies?

With questions like this in mind, I invited Daniel Klapper to write a master's thesis on the topic in 1989 [4]. He was a student at the University of Bielefeld and is now a professor at Humboldt University in Berlin. I tasked him with tracking down mid-sized world market leaders and collecting basic data on them.

Klapper identified 39 of these global market leaders. The results surprised me and inspired further research. These mid-sized companies were growing strong, had numerous international subsidiaries, and were successful even in a challenging market like Japan. Trumpf, the current global leader in laser machines, had expanded into the Japanese market in 1964. Karl Mayer, world market leader for warp knitting machines with a global market share of 75 percent, sold more of its products in Japan than in Germany. Lenze, a manufacturer of small gearboxes, had been cooperating closely with a Japanese

company for many years. Such companies were real champions, but apart from a few specialists nobody knew them.

What would be a good name for these mid-sized global market leaders? The term "Hidden Champions" turned out to be a stroke of luck, not least because of the inherent contradiction of the two words. Champions are usually well-known. You don't expect them to be concealed or "hidden." The term generated curiosity and interest after I used it for the first time in a publication in September 1990 entitled "Hidden Champions—Spearheading the German Economy" [5] and shortly thereafter in an article in the *Harvard Business Review* [6]. In these early publications, it was still unclear how much these companies contributed to German exports as a whole and how many Hidden Champions there were in Germany.

Fast forward 30 years to 2021, and the roster of German Hidden Champions now contains 1573 companies that is 46.2% of all Hidden Champions identified in the world. Search for global market leaders in specific US cities on Google and you will almost always find more results for German companies than for American ones. This attests to the German Hidden Champions' impressive global presence. All these mid-sized German companies had an office, a branch, or a factory in the American cities we looked at.

The Global Dimension

The Hidden Champions concept has transcended its German origins to become a globally accepted strategy and management concept. I have identified thousands of them around the world and have personally met hundreds of the entrepreneurs behind them. The most astonishing insight for me has been that these hidden champions share remarkable similarities across national and cultural boundaries. This is true for their ambitions, their strategies, their leaders, and their corporate cultures.

Publications

Harvard Business School Press published my first book on the subject in 1996 under the title *Hidden Champions—Lessons from 500 of the World's Best Unknown Companies* [7]. Twelve years later, I published the second, completely rewritten, edition called *Hidden Champions of the 21st Century* [8]. The third edition from 2012—*Hidden Champions–Departure towards Globalia*—analyzed not only Hidden Champions from Germany but also

from Austria and Switzerland [9]. In the meantime, my Hidden Champions books have been published in 26 countries. More than one million Hidden Champions books have been sold in China alone.

This is one of many indications that we are living in the Chinese century, a period in which China develops into an economic powerhouse. Beyond the continually strong growth rates for more than a generation, Chinese companies are now shoring up their historic relative weaknesses in areas such as quality, branding, marketing, and breakthrough innovations. I will cite many examples on how Chinese companies are making a concerted effort to implement the Hidden Champions concept. Some have already achieved impressive successes through shifts in strategy, organic growth, and key acquisitions.

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2

Hidden Champions and Export Success

Ted Levitt's question about the roots of the spectacular German export success was not easy to answer. But one fact is indisputable: Germany has sustained its exceptional export performance for more than three decades since he posed his question. Figure 2.1 shows the total exports of the 10 largest exporting countries for the period 2010–2019.[1]

China succeeded Germany as the world's export champion in 2009 and has held the top position ever since. The United States is likewise ahead of Germany in terms of absolute exports. However, the economies of those two countries are many times larger than Germany's. The dominant export performance of German companies clearly stands out in the per capita comparison shown in Fig. 2.2.

In terms of per capita exports, Germany is an extreme outlier among major countries, particularly compared with its European neighbors. One would expect that France, Italy, the UK, and Spain would have higher per capita exports than Germany, because countries with smaller populations typically have higher per capita exports than larger countries. In Germany's case, the opposite is true. German per capita exports tend to be at least twice as high of those of its large European neighbors, even though they are all roughly the same geographical distance away from important markets such as the USA or China. What explains these enormous discrepancies? There is no simple explanation, but the number of Hidden Champions in a country may well play an important role.

[1] I deliberately chose the 10 years up to 2019 as the 2020 numbers are heavily distorted by COVID-19.

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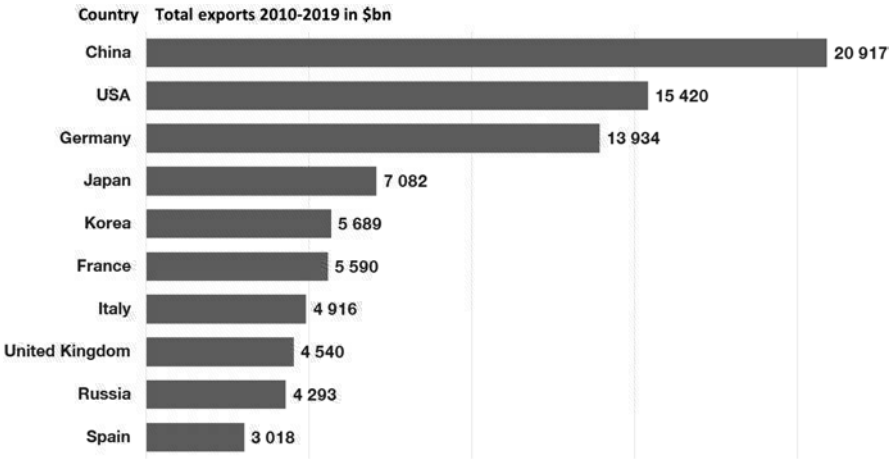

Fig. 2.1 Total exports of the largest exporting countries, 2010–2019

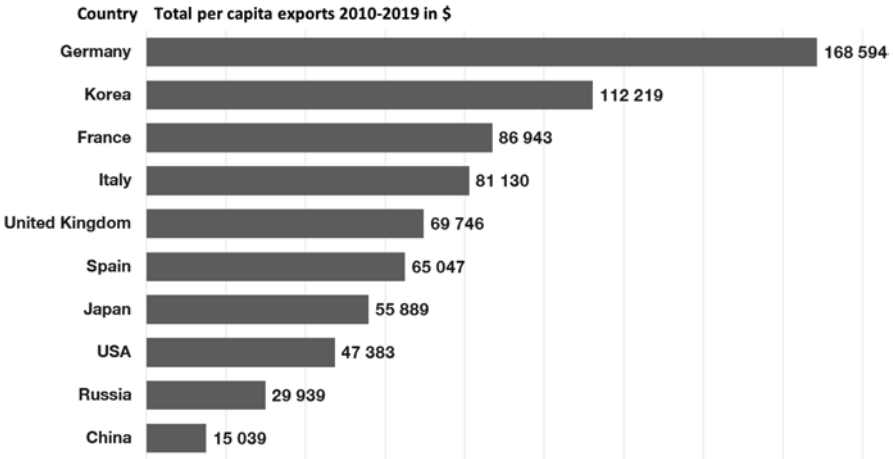

Fig. 2.2 Per capita exports of the largest exporting countries, 2010–2019

Large Companies or SMEs?

We can thank Harvard professor Marc Melitz for the rather obvious insight that national export statistics are an artifact [1]. Companies—not countries—are the real exporters, and, according to Melitz, "only the best can handle business with foreign countries" [2]. Only the best are able to produce internationally competitive products and sell them at profitable prices. As Levitt's answer in the 1987 interview revealed, the large, globally active corporations

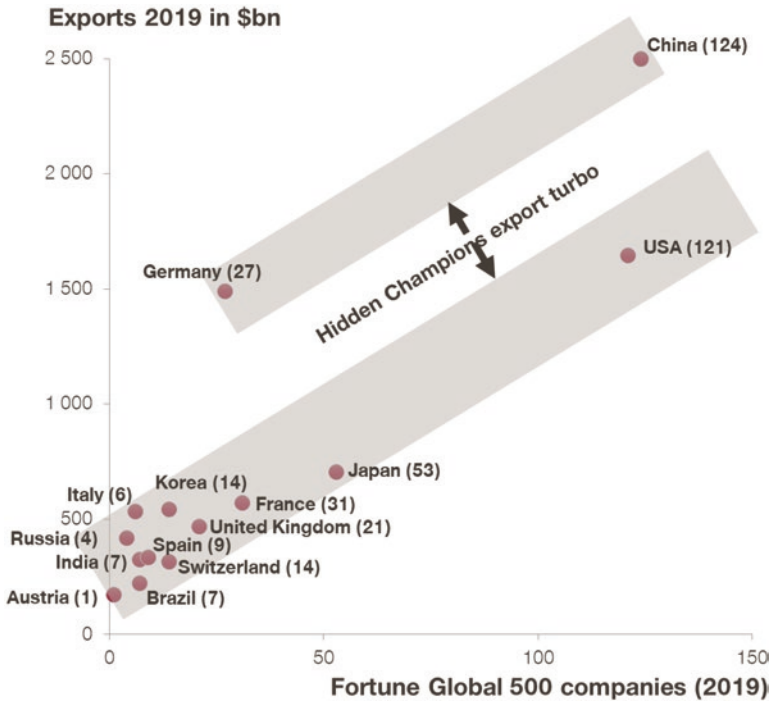

Fig. 2.3 Number of Fortune Global 500 companies and exports, by country

like those in the Fortune Global 500 are more likely than mid-sized companies to have these abilities. Does this mean that the number of large firms in a country can explain its export performance?

Figure 2.3 attempts to answer this question. The horizontal axis shows the number of Fortune Global 500 companies in each country.[2] These are the 500 largest firms in the world. The vertical axis shows the respective country's exports.

The hypothesis that large companies determine a country's export performance is true for most countries. There is an almost linear relationship between the number of large corporations and export performance for the USA, Japan, France, Korea, the UK, Italy, and Spain. Only China and Germany deviate from this pattern—precisely the two countries that are number one in absolute and in per capita exports, respectively. China and Germany are very different in so many ways, so what do they have in common? In China, about two-thirds of all exports come from mid-sized companies, and the export share

[2] Cf. *Fortune*, August–September 2020, S. F1-F22. Number of companies and export figures for 2019.

of SMEs in Germany is similar.[3] Not every SME exports, which means there is a high probability that the Hidden Champions are a major driver behind Germany's impressive export success. The Hidden Champions Fund from Singapore supports this diagnosis: "The Hidden Champions form the backbone of Germany's resilient export-driven economy. They have their roots in the *esprit de corps* of Germany's Mittelstand" [3].

Hidden Champions and Germany's Image

Although the Hidden Champions are not well-known individually, they play an important role collectively in how the rest of the world perceives Germany. In international business and economics rankings, Germany is usually among the top 10 in the world. A study by *U.S. News and World Report* ranked Germany fourth [4]. The Wharton School even ranked Germany as the "best country in the world." Still more surprisingly, when it came to entrepreneurship, the study's author, Professor David Reibstein, saw Germany at the top: "The top nation for entrepreneurs isn't the United States. It's Germany" [5].

In recent books by foreign authors, Germany is increasingly portrayed in a positive light. They explicitly mention and recognize the Mittelstand and especially the Hidden Champions. The British author John Kampfer writes: "Most of all, it is the smaller firms that set Germany apart. Hermann Simon has coined the term Hidden Champions. These are success stories of globalization and free trade. Half of them come from Germany. The USA, Japan, and China follow, a long way behind. Other European countries are nowhere in sight" [6].

Germans' own perception of their country tends to be more skeptical, but even very critical authors emphasize the positive role of small- and mid-sized enterprises and the Hidden Champions. Gabor Steingart, a well-known journalist, writes: "With inventiveness and tenacity, courage and modesty, the Hidden Champions work the global markets" [7]. The Hidden Champions make a decisive contribution to Germany's image and reputation. They are "the secret force of Germany."

[3] The Economist reported already in 2009 that 68% of Chinese exports come from companies with less than 2000 employees (cf. 2009. "Small Fish in a Big Pond," *The Economist*, September 10). Our estimate is that this share remains unchanged if you look at companies with less 4000 employees.

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