

## Hidden champions in Russia: using western research methodology to study dynamically developing markets

Olga Vitalievna Saginova, Irina Ivanovna Skorobogatykh and Zhanna Borisovna Musatova

Plekhanov Russian University of Economics, Stremjanny lane 36, 117997, Moscow, Russia

**Abstract.** The paper reports on the results of an international research project which used H. Simon's methodology to identify Hidden Champions in Central and Eastern Europe, Russia, Turkey and Kazakhstan. Research helped to formulate key success factors of these companies in dynamically developing markets including marketing strategies, leadership styles, entrepreneurship approaches and customer value creation patterns. Keeping a low profile on the global and even national scale these small and medium size companies are successful, export-oriented, and profitable even in the times of financial crises.

[Saginova O.V., Skorobogatykh I.I., Musatova Z.B. **Hidden champions in Russia: using western research methodology to study dynamically developing markets.** *Life Sci J* 2014;11(5):512-518] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 75

**Keywords:** hidden champions, Small and Medium sized enterprises (SMEs), dynamically developing markets, key success factors, leadership style, customer value creation

### Introduction

Business success nowadays is measured not by company size or its publicity, like being in the Fortune Global 500 companies. In Germany, which was 6 times number one in exports in the last 10 years, more than two-thirds of the exports come from companies with less than 2000 employees [1,2]. Central and East European countries have very few companies in the Global 500 list, but can achieve outstanding export success through mid-sized companies and thus participate in rapidly growing global economy, create high quality jobs and build economic future for their countries' economies.

"Hidden Champion" is a term, which was used for the first time by Theodore Levitt in a conversation with Hermann Simon [2], who studied small and medium sized companies from Germany playing an important role in increasing the export potential of the country, and therefore considered an important contribution to the national economy. Simon's research first in Germany in 1996 and then in Austria in 2009 formulated success factors of Hidden Champions, and identified features differentiating these from other companies [2,3]. Hidden Champions are stable to crises and other unfavorable changes in the domestic and global economy, they are creating new jobs at a higher rate than on the average in their industries. They spend twice as much on technology development and show better results than the 1000 biggest innovative companies in the world [3]. Hidden Champions have five times more registered patents per 1000 workers than large Western corporations. According to Simon, these companies can serve as an evidence of the market maturity and stability [3].

Hidden Champions are usually working in niche markets, often B2B, and produce components or

semi-finished products, and they achieve world or regional leadership position in their market niches. With all the results achieved, these companies prefer to keep a low profile, they are "hidden" or "silent" and therefore mass markets do not know them. Their products and services are well known by a limited number of specialists. According to Simon's methodology these companies should meet three main requirements: they should be among top three world leaders in their market niche, or number one in their region; they should have total annual revenue over 4 million USD; and they should be "silent" and not well known in the mass market [3].

### International research project: methodology, process and data collection

International research project initiated in 2011 by the Association of business schools from Central and Eastern Europe (CEEMAN) and supported by the Russian Association of Business Education (RABE) and Polish association of management education (FORUM) was conducted by research teams from Central and Eastern Europe, Russia, Turkey and Kazakhstan. The main goal of the project was to understand if the dynamically developing economies of the participating countries have companies which can be identified as Hidden Champions. Also researchers were to find out whether specific features of Hidden Champions in these economies exist. Representatives of 18 countries with dynamically developing economies took part in this international research project. 165 companies were identified during the project, initial information about them was collected during desk research, and owners or CEOs of the shortlisted companies were then interviewed. [4]

Multiple methods of data collection, including qualitative and quantitative methods, were employed/ In addition to Simon's questionnaire, interviews, observations and desk analysis from secondary sources were used. Researchers focused more on local casualties rather than following some universal laws. Flexibility and non-preset termination of the research design was applied using two paths of research questions: confirmatory path (does the region have H.Simons Hidden champions (HC), and if not, what is the best approximation to Simon's HCs) and exploratory (how similar or different were the discovered companies to Simon's HCs, how and why did these differences happen and was there a special pattern which could be registered).

The research primarily registered the HCs through the eyes of their leaders (founders and/or CEOs, members of the Board who usually also were co-owners). Subjectivity was reduced by using media publications, financial reports, company strategies and other archival data.

In the process of data collection about potential HCs researchers scanned various sources, including national and international statistical reports, economic and industrial studies, data bases of research and educational institutions, articles in business publications, information available through chambers of commerce, etc.

Project participants faced a number of challenges: specific national economic environments made it very difficult to use a uniform approach to companies selection. Initial methodology had to be adapted to market conditions in each country; and primary information collection was difficult due to low profile of these companies. Comparison of the selection criteria used in the project with standard H. Simon's methodology is given in table 1.

After making the list of HCs researchers completed H.Simon's diagnostic questionnaire covering the following issues: general information about the company, nature of market leadership, main indicators of growth, geographic coverage, nature of competition, diversity of customers and drivers of their buying behavior, company products characteristics (life-cycle, complexity, innovative nature), company competence areas (leadership, patents, financial strength, history), performance indicators. The original questionnaire was first tested in Poland and then abridged to be used in other countries. Abridged version addressed the same concepts but used fewer indicators for each concept. [4]

Each issue was assessed through multiple questions and cross-examined using both closed and open questions and applying Likert scale 1-7 to closed questions.

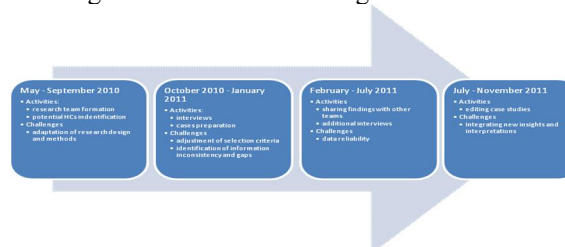
**Table 1. Comparison of criteria for selection of Hidden Champions [1]**

Criteria	Hidden Champions (Simon's methodology)	Hidden Champions in dynamically developing economies
Market position	No. 1 in Europe or top 3 in the World	Global / Europe / CEE / Regional leaders
Average revenues (per annum)	€325 million	€141 million
Revenue growth (within the last 10 years)	8.3%	10.4%
Export (% of revenues)	61.5%	62.1%
	(51.1% 10 years ago)	(58.2% 10 years ago)
Productivity (revenue per employee)	€160,039	€99,240
Median age of the companies (years)	61	19
R&D expenses (% of revenue)	6%	16.4%
Number of patents per 1000 employees	30.6	41.98
ROI (%)	13.6%	32%

After filling in diagnostic questionnaires, researchers conducted in-depth interviews with company leaders (founders or CEOs). Out of 29 companies identified as potential HCs in Russia

14 interviews were conducted, in 6 cases more than one interview was used, in 2 cases other members of senior management team were interviewed. In each interview after stating the purpose of the research the interviewee was asked to explain the company's market leadership and approached to its development and strengthening. When visiting companies premises and sometimes production and research facilities researchers supplemented the interviews data with their own observations. The majority of interviews were audiotaped and then transcribed, or initial notes of the interviewers made during the interview were then developed into extensive field notes.

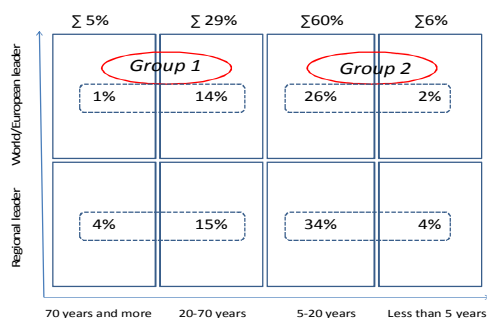
To enable consistency of research approaches across all countries participating in the project field work was supervised and coordinated by project leaders. Research teams could contact project coordinators to discuss data processing and results, several drafts of research results were discussed before the findings were reported at the conference "Hidden champions in CEE and Dynamically Changing Environments" in Vienna, Austria, on 17-18 November 2011. Research findings were openly exposed to both positive and negative criticism at the conference, some new insights and interpretations were added and developed. After that research teams prepared their chapters to the book "Hidden Champions in CEE and Turkey" edited by P.McKiernan and D.Purg and published by Springer in 2013. [1] The research process activities and main challenges are summarized in Fig. 1.



**Figure 1. Summary of research activities and challenges**

## Main Findings

Most Hidden Champions in the dynamically developing markets were established in the beginning of 1990-s with the start of market reforms, and some were founded in late 1990-s – early 2000. All HCs can be divided into two groups (Figure 2) using the parameters of age and market leadership.



**Figure 2. Hidden Champions groups**

Though both groups were identified as Hidden Champions their patterns of value creation are different: while companies in the first group were offering technologically complex but standard products, companies in the second group were selling research intensive and customized solutions. Competitive advantages of the first group were based on price-value relationship, while second group was leading due to product design and innovations. Companies in the first group are building their own supply chain while the second group is treating their suppliers as partners and trying to create additional value for them. Economies of scale are used to decrease costs by companies in the first group, intellectual leadership and knowledge management are drivers for the second group. [4]

HC organisations throughout countries researched attribute their foundation and success to visionary, passionate and expert leadership in building organisations. Vision is leadership for the future, practice that brings together and leads them to achieve future goals. [5,6] Leaders' passion spurred people into action, their enthusiasm fired their entrepreneurial skills to see market opportunities and establish successful organisations. Vision and passion were accompanied by expert knowledge of the founders/leaders and/or people they recruited.

An important element of success of HC organisations was not just vision, passion and expertise, but an environment they managed to create, where people feel they belong, care, work for some shared values. These community cultures were created by HCs not just internally, they demonstrate a shared understanding that they are part of a bigger system – local, regional or international – more pervasive than the organisations themselves.

## 1. Hidden Champions in Russia

### 1.1. Russian Hidden Champions by location and industry

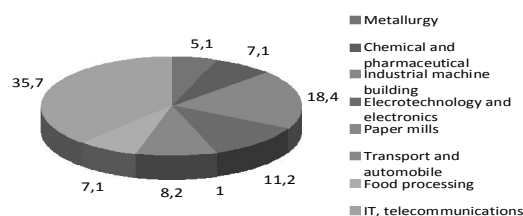
The potential for Russian HCs is determined by 3 main factors:

1. A long period of centrally planned economy resulting in lack of international involvement, low or no competition, undeveloped entrepreneurial skills and attitudes;
2. Specific transition period with a shift to oligarchic economy with significant role of the state, high barriers for new businesses and high risks for small and medium enterprises;
3. National economy based to a large extent on natural resources with a relatively small number of companies accounting for a large portion of the total market capitalization. Large corporations dominate Key Russian export sectors. The share of SMEs is low, accounting for 15% of GDP and employing only 20% of the total workforce.

In Russia researchers shortlisted 5 companies from the initially selected 29 organisations to be studied in more detail. As it can be seen from table 1 most of the identified companies started their business in the beginning of 1990-s, when social and economic reforms began in the country. In Russia researchers identified several companies which were established during Soviet times, and are still successful. Some IT companies were established in the beginning of 2000-s, with Internet penetration and IT market development.

The majority of manufacturing and hi-tech companies in Russia are located in the central metropolitan cities: Moscow and Saint-Petersburg. This is a common pattern for Russia: most of the innovative enterprises are located close to the human resources and higher education institutions. Russian HCs were selected on the basis of their products novelty, successful marketing strategies, strong presence on the international and national markets, innovative approach and R&D, sustainable development orientation, and talents management.

In terms of industry distribution Hidden Champions in Russia are split as shown in Fig.3: 35,7% in IT and telecommunications; 18,4% in machine building; 11,2% in electrotechnology and electronics; 8,2% in food processing; 7,1% in transport and automobile; 5,1% in metallurgy; 1% in chemical and pharmaceutical; 0,1% in paper mills.



**Figure 3. Russian Hidden Champions by industry**

The key Russian export sectors are dominated by large corporations either owned by the state or often informally affiliated with the state administrations and political leadership. [10] Russian HCs managed to penetrate big business dominated export operations in the following sectors, where they take leading positions either worldwide (top 3) or regionally (Europe and CIS):

1. IT (software production, IT-consulting, IT-outsourcing);
2. Transport manufacturing (yachts, helicopters);
3. Hi-Tech (scientific instruments, nano-technology, scanning probe microscopes, navigation systems for sea ships and aircrafts);
4. Pharmaceuticals (generics, anti-flu vaccines);
5. Consumer products (sports clothes, ballet and dance shoes, sparkling wines);
6. Metallurgy (titan and zinc supplies for automotive producers).
7. The “supply” products: equipment, materials, components

### 1.2. Russian Hidden Champions by leadership styles

An important factor which helped to classify these companies as Hidden Champions is leadership style, high level of education of their leaders and employees who are graduates from the leading Russian universities and some of them also hold degrees from Western business schools.

Using the above classification of Hidden Champions into two groups by their experience in the market, we can identify the differences in the leadership style: leader's personality traits, corporate culture and staff loyalty are driving companies of the 1 group, while entrepreneurship intuition serves basis for managerial decisions of the leaders in the second group (Figure 4. Likert scale 1-8 was used to assess leadership style parameters).

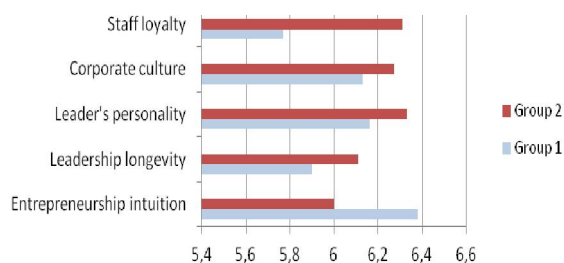


Figure 4. Leadership factors of Hidden Champions

Russian Hidden Champions are leaders in their industries. Research has shown that founders, owners, or CEOs often use authoritarian leadership style, have entrepreneurship intuition, and passion for innovation as well as wide international contacts. They are leaders in their professional areas just as they are leaders in their companies. All of the owners of Russian HCs are founders or active members of professional associations or societies (setting up professional association as NT-MTD head V.Bykov or participating in several professional bodies as N.Grishko) and they created partnership networks, which include customers, suppliers, educational institutions, research centers.

Leaders of those companies are usually first generation entrepreneurs, they are success hungry and understand the peculiarities of the market development due to their education or entrepreneurship intuition. They all understand the importance of high R&D spendings and patents registration. Most of them mentioned maintaining control over their business as one of the key factors when choosing a growth strategy [4].

### 1.3. Russian Hidden Champions international expansion

The analysis of research literature showed that internationalization strategies for small and medium enterprises are studied in two distinct streams [4]: one focuses on new international ventures, i.e. start-ups which are international from their very creation, the second looks at internationalization of already existing small and medium firms. HC research covered antecedents and outcomes of internationalization, as well as its influence of SMEs survival [3]. Research of Russian Hidden Champions showed that internationalization through serving the target markets beyond domestic country borders was one of hidden champions success factors.

Reasons for this early internationalization included existing demand in foreign markets, when the domestic market was not yet ready for the product [6]. As was with Grishko pointe shoes in the 1990-s when only professional ballerinas or students of ballet schools in Russia bought these shoes while a much larger group of amateurs took ballet classes as hobby or fitness activities in Japan or Italy and hence needed a constant supply of pointe shoes. Internationalisation motivation was also strengthened by the existence of high-price/low-volume segment in the foreign markets [7], which was the case with Luxoft unique IT solutions for banking services and automotive manufacturers, or NT-MTD probe microscopes. Early exports provided Russian HCs possibility to broaden customer base through entering new markets and achieve a larger volume of production [9].



HCs continue to use internationalisation and new markets development as their important growth strategies, strengthening their positions in the markets they entered in the early stages of their development (US, Japan and Italy for Grishko, US and EU for NT-MTD, CIS, Asia and Latin America for Russian Helicopters) and entering or considering entrance to new markets (Asia Pacific for NT-MTD, China and India for Russian Helicopters).

With the development of information technologies and digital products IT companies do not make a difference between serving or cooperating with customers and partners in their domestic or foreign markets, which is the case of Luxoft, one of the Russian HCs.

#### 1.4. Russian Hidden Champions: marketing strategy

Marketing strategy of the Russian Hidden Champions is focused on growth, they offer high quality products at reasonable prices. Though this pricing approach is typical for companies in the dynamically developing markets, Russian Hidden Champions are often using special discounts or discrimination pricing for socially vulnerable segments (for example Grishko selling pointe shoes to young Russian ballerinas with a 25% discount or NT-MTD providing scanning probe microscopes at a reduced price to universities to support nanotechnology research). Their major products are at the early maturity or late growth stage and are technology intensive, whether they are special scientific equipment, software or consumer goods.

There are still foreign markets to be conquered and this approach can bring success to these companies, however most of their success factors are marketing related (Figure 5). Market knowledge of the Hidden Champions is based on close market monitoring, modern marketing information systems and leading in professional communities.

Company image, taking into account absence of mass communications of these companies, depends heavily on relationship marketing, on building value creation chains, partnerships and networks, on cluster cooperation and leadership in their professional communities.

Entrepreneurial intuition coupled with strong R&D and patenting and licensing policy, market knowledge base and very cautious borrowing policy provide solid risk management basis.

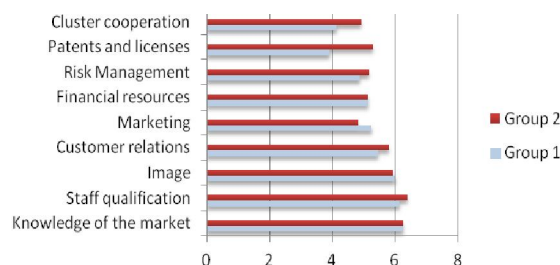


Fig. 5. Hidden Champions success factors

All of the studied Russian Hidden Champions have successfully coped with the financial crisis and started to demonstrate growth earlier than other companies in their industry. Core drivers of the Russian Hidden Champions include knowledge of the market, qualification of employees, innovations in both product development and channel management, customers and partners relationship management.

Most hidden champions succeed because they produce high quality innovative products. Though innovation became more a buzz-word than a technical term with distinct definition, it is still used to mean something new including products, services, ideas and processes.

Russian HCs are relying both on traditional handicrafts and use of natural materials combined with in-depth understanding of their customers' needs and problems (Grishko), R&D results commercialization (NT-MTD) in their product innovations. Business model innovations can be illustrated by a well balanced combination of centralization and decentralization of some business functions when building a highly efficient holding of helicopters building and repair facilities by the Russian Helicopters.

Selecting ideas to commercialise is one of the main challenges in innovation process. Closeness to customers, taking their R&D outside the company are of key importance for the success of innovations and are demonstrated by HCs and Russian HCs. Working closely with ballet dancers (Grishko) or defining special purposes of helicopters users (Russian helicopters), identifying new needs of in-car access to online services, messaging and multimedia (Luxoft) – these are examples of customer oriented relationship marketing of Russian HCs.

Though some most exciting social entrepreneurship innovations originate in transition and developing economies, social corporate responsibility there faces additional problems and challenges. Economies in transition are establishing market mechanisms and institutions often at the expense of social programs. Business ethics, corporate social responsibility, charity and social enterprise are

issues heavily overshadowed and overtaken by profitability, efficiency, competition and other business problems. Research showed that Russian HCs lead their markets in ethical endeavours and corporate social responsibility programs, supporting existing social programs, charities, creating jobs for vulnerable groups and handicapped people, investing in education and training.

## 2. Russian HCs cases

Russian HC cases are described in more detail in the book cited above [5], for the purpose of this paper we summarized some key facts about selected HC companies, their nature of market leadership and core lessons learned which assisted their market success (Table 2).

**Table 2. Russian Hidden Champions cases**

Company information	Luxoft Established in 1995 Number of employees in 2010 – 4300 IT solutions for banking services, automotive industry and infotainment
Nature of market leadership and competitive advantage	Customization State-of-the-art technology
Core lessons learned and business success	Serve most technologically advanced industries Global expansion through professional networks Investing in talent development
Company information	Grishko Established in 1989 Number of employees in 2010 – 500 Pointe shoes, dancing shoes and costumes
Nature of market leadership and competitive advantage	High quality pointe shoes made of natural materials using technology to minimize foot deformation
Core lessons learned and business success	Superior quality at affordable price Value chain control Developing customer base through relationship marketing Wide corporate social responsibility programs
Company information	Russian Helicopters Established in 2003 Number of employees in 2010 – 500 Heavy weight and special purpose helicopters
Nature of market leadership and competitive advantage	Special design and efficient functions of the product After-sales support
Core lessons learned and business success	Developing an efficient organizational structure with a combination of centralized and decentralized functions Focused marketing and sales efforts Superior and specialized product
Company information	NT-MTD Established in 1990 Number of employees in 2010 – 300. Probe microscopes and nanotechnology research instruments
Nature of market leadership and competitive advantage	Unique product design Choice of high technology industries to serve Provide complex research solutions
Core lessons learned and business success	Commercializing a research idea Research community networking Products as educational systems

### Conclusion and further research

Hidden Champions international research project proved that companies meeting the Hidden Champions criteria are present in Russia, as well as in Central and Eastern Europe (Slovenia, Czech Republic, Serbia, Macedonia, Poland, Ukraine, Belarus, Estonia, Latvia) Turkey and Kazakhstan.

Hidden Champions selection criteria differ from those identified by H.Simon due to dynamically developing markets characteristics. Companies' value creation patterns, leadership styles and years of experience in the market provide the basis for their classification into two groups, and behavior patterns in each group showed similarities across the markets involved in the research. Marketing and business strategies of the Russian Hidden Champions should be studied more carefully, and their experience in managing innovations and channels of distribution, as well as their strategies of talent and knowledge management should be used for training marketing students and entrepreneurs.

Research continues, new examples of Hidden Champions are being discovered in the Russian regions outside the two metropolitan areas, so regional aspects of these companies can be studied and compared.

### Acknowledgments

Authors of this paper would like to thank various people and organizations who made this research and this paper possible. First of all we would like to thank professor Danica Purg, the President of CEEMAN – association of business schools from Eastern and Central Europe and countries with dynamically developing environments. We also wanted to thank Prof. Herman Simon for the chance to meet, listen to him, and to adapt his methodology for the research project in Russia. We also wanted to thank owners and representatives of companies – Hidden Champions in Russia - for the patience, openness and support in the process of data collection for this research project.

### Corresponding Author:

Dr. Skorobogatykh Irina Ivanovna  
Plekhanov Russian University of Economics,  
Stremjanny lane 36, 117997, Moscow, Russia

24/04/2014

### References

1. McKiernan, P. and D. Purg, 2013. Hidden Champions in CEE and Turkey. Springer.
2. Simon, H., 2009. Hidden champions in 21-st century. Success strategies of unknown world market leaders. London, New York: Springer Dordrecht.
3. Simon, H., 1996. Hidden champions: lessons from 500 of the world's best unknown companies. Boston: Harvard Business School press.
4. Rant, M. and M. Dietl, 2011. Hidden Champions in Central and Eastern Europe, Turkey and Kazakhstan, 2010-2011. CEEMAN. Date views 22.02.2014  
[www.ceeman.org/publications.php/90/hidden-champions-in-cee-and-dynamically-changing-environments-research-report](http://www.ceeman.org/publications.php/90/hidden-champions-in-cee-and-dynamically-changing-environments-research-report)
5. Jaruzelski, B. and K. Dehoff, 2010. The Global innovation. Booz & Company's annual study of the world's biggest R&D spenders shows why highly innovative companies are able to consistently outperform. Their secret? They're good at the right things, not at everything. Strategy+business magazine, 1. Date Views 15.03.2014 [www.strategy-business.com](http://www.strategy-business.com).
6. Lee, H., D. Kelley, J. Lee and S. Lee, 2012. Survival: The Impact of Internationalization, Technology Resources and Alliances. Journal of Small Business Management, 50 (1): 1-19.
7. Zahra, S.A., R.D. Ireland and M.A. Hitt, 2000. International expansion by new venture firms: international diversity, mode of market entry, technological learning and performance. Academy of Management Journal, 43(5): 925-950.
8. McDougall, P.P. and B.M. Oviatt, 2000. International entrepreneurship: the intersection of two research paths. Academy of Management Journal, 43(5): 902-908.
9. Mudambi, R. and Sh. Zahra, 2007. The survival of international new ventures. Journal of International Business studies. Palgrave Macmillan, 38(2): 333-352.
10. Russia Trade, Exports and Imports in 2010. Economy Watch. Follow the Money. Date Views 15.03.2014  
[www.economywatch.com/world\\_economy/russia/export-import.html](http://www.economywatch.com/world_economy/russia/export-import.html).