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Article

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Hidden Champions in Spain: The Path to Successful Business Decisions

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ABSTRACT

The last three decades have been a story of lost opportunities for Spanish industry to transform and improve their international competitiveness. However, there are some paradigmatic examples that violate this rule. This is the case of two Spanish companies: Hidden Champions and Brand Champions. These companies behave differently from the European and Spanish ones of similar size. They are more resilient in times of economic recession and are able to maintain and even increase their employment levels, while significantly increasing its sales and added value. This research therefore seeks to ascertain whether the Spanish hidden champions are good indicators of maturity, stability and growth of the Spanish economy; in addition to determining the reasons that have brought success and allowed these companies to recover faster than other firms. To do this, we have considered the quantitative and qualitative results collected by 75 Spanish companies to identify key management decisions. All this information is supplemented by personal interviews in order to capture more qualitative aspects about the nature of companies' management practices. The results show a typology of companies that behave differently from other companies. Managers believe that the development of close relations with customers is the first reason related to management that has led where they are today. The second is the continued development of new products and technology through innovation. Thirdly, managers consider internationalization, global approach and international alliances; whereas the fourth reason corresponds to high product specialization. Other reasons include talent management, strong leadership and company identity, quality and service, and close cooperation between managers and employees.

Keywords: hidden champion; brand champion; global value chains (GVC); competitiveness; internationalization.

JEL classification: L22; M21; F23; F61; L53.

MSC2010: 91B26.

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***Hidden Champions* en España: el camino hacia la toma de decisiones empresariales de éxito**

RESUMEN

Las tres últimas décadas han sido una historia de oportunidades perdidas para transformar la industria española y mejorar su competitividad internacional. Sin embargo, existen algunos ejemplos paradigmáticos que contravienen esta norma general. Es el caso de las empresas españolas *Hidden Champions* y *Brand Champions*. Estas empresas se comportan de manera diferente a las europeas y españolas de tamaño similar. Son más resilientes en períodos de recesión económica y logran mantener, e incluso aumentar, sus niveles de empleo, al tiempo que aumentan significativamente sus ventas y valor añadido. Esta investigación se plantea como objetivo comprobar si los campeones ocultos españoles son buenos indicadores de la madurez, estabilidad y capacidad de crecimiento de la economía española; además de determinar las razones del éxito de estas empresas, que les ha permitido recuperarse más rápido que otras firmas. Para ello, contamos con los resultados cuantitativos y cualitativos recogidos por 75 empresas españolas para identificar las principales decisiones de gestión. Toda esta información se complementa con entrevistas personales, con el fin de captar los aspectos más cualitativos de la naturaleza de las prácticas de gestión de las empresas. Los resultados muestran una tipología de empresas que se comportan de forma diferente al resto de empresas. Los gestores creen que la primera razón de gestión que les ha llevado donde están hoy es el desarrollo de estrechas relaciones con los clientes. El segundo es el desarrollo continuo de nuevos productos y tecnología a través de la innovación. En tercer lugar, consideran la internacionalización, el enfoque global y alianzas internacionales; mientras que el cuarto lugar corresponde a la alta especialización del producto. Otras razones incluyen la gestión del talento, un fuerte liderazgo e identidad de la empresa, la calidad y el servicio, y una estrecha cooperación entre directivos y empleados.

Palabras claves: *hidden champion*; *brand champion*; cadenas de valor globales (CVG); competitividad; internacionalización.

Clasificación JEL: L22; M21; F23; F61; L53.

MSC2010: 91B26.



1 Introduction

Until some years ago, the analysis of hidden champions was restricted almost exclusively to describing the successful manufacturing performance in Germany. The underlying idea was derived from the German term *mittelstand*, as proposed by Venohr & Meyer (2007), which is a dynamic entrepreneurial network with appropriate incentives and social recognition.

The analysis inherent in Simon's canonical works (1990,1996, 2009) was brought together by several authors between 2000 and 2016 and widely used to study the case of Greece (Voudouris *et al.*, 2000), fifteen countries of Central and Eastern Europe and Turkey (CEEMAN, 2011), Austria (AFEC, 2015) and Switzerland (Feubli & Gachet, 2015), as they are all economies with strong links to German industrial corporations. Similarly, Schaeede (2011) deepens on this idea by studying the case of Japanese hidden champions, referred to as *chuken kigyo* (strong SMEs).

Regardless of the term used, the main conclusion of all the works mentioned above is that these kinds of companies represent an important pillar for all the economies studied. These hidden champions are similar in some instances to the so-called high-growth firms, which also contribute significantly to economic growth due to their superior growth performance (Moreno & Coad, 2015). The issues we attempt to answer in this paper are:

- To analyse whether these firms were able to cope better than their Spanish and EU counterparts in difficult economic times.
- To study their progress in terms of employment, sales and value added.
- To determine whether, after the worst recession years have passed, they are able to recover faster than other firms. Highlight their performance and resilience.

Our paper is divided into four parts. In the first, we briefly describe the role of hidden champions as drivers of growth and employment in Spain's economic structure. The second analyses the progress of Spanish hidden champions in terms of employment, turnover and value added, and describes a comparison with European and Spanish firms of similar size. In the third, we present the hidden reasons that turned these firms into champions, according to the opinion of the managers of 75 Spanish firms. Finally, the last section sets out the concluding remarks of our analysis.

2 Who are Spain's Hidden Champions?

Hidden champions are small- and medium-sized enterprises —with a few large exceptions— that are characterized by being: (a) very heavily internationalised; (b) highly innovative; and (c) very dynamic organizations, making them worldwide leaders in very specific market segments (Venohr & Meyer, 2007). They usually produce highly specialized intermediate goods and are usually unknown beyond the narrow circle of their customers and suppliers. It is the widespread ignorance of these kinds of firms that prompted the name *hidden champions*. According to Simon (1990, 1996, 2009), to be considered a *hidden champion*, a company must fulfil three criteria: a) to be number one, two or three in the global market, or number one in its continent, in terms of market share; b) to have a revenue below 3 billion euros; and c) to have a low public profile. However, the relatively small size of the Spanish economy, the strong fragmentation of the industrial business and the weight of the higher service sector make it difficult to use Simon's criteria to identify Spanish hidden champions.

The size of micro or small businesses, the strong fragmentation of industrial activity and the large weight of the service sector have hindered the identification of hidden champions in Spain. Simon (1996, 2009), for example, stated that there were only 11 hidden champions in Spain. However, some of the Spanish companies identified by Simon as being hidden champions are debatable as they are

companies with well-known trademarks, which is a clear contradiction with the notion that they should be hidden¹.

Therefore, it is necessary to redefine certain criteria, otherwise there is the risk of assuming the virtual absence of such companies in Spain. In this sense, our paper provides an adjusted classification which, respecting the broad lines of the canonical work of Simon (1996), is best suited to Spanish standard.

Moreover, the nature of Spanish champions is also related to certain small and medium enterprises (SMEs) whose successful performance can be explained by means of highly differentiated final goods or services. As they are gambling on the power of the brand as a differentiation factor, we have labelled them as *brand champions*.

In our opinion, the hidden and brand champions in Spain are generally SMEs satisfying that: a) their revenues are below 1 billion euros; b) they cannot be owned by a foreign multinational that handles the Spanish company as a non-autonomous branch; c) they are the leaders in their market in their continent or they are in the top 3 in world market in terms of market share; and d) they have a low awareness profile in the case of hidden champions or they have a powerful brand in the case of brand champions.

3 Methodology

For our purpose, we have built a specific database for the Spanish economy focusing on both hidden and brand champions.

We have used the technique of non-probabilistic quota sampling, which is a non-probabilistic version of stratified sampling. The goal is to build a sample identical to the population to be studied in terms of its properties.

Our analysis followed three steps. The first was to detect potential champions. For three years, we identified a list of over one hundred fifty potential Spanish hidden champions by analysing several sources of information: Domestic and international statistical reports, economic studies, databases, research networks, educational institutions, business rankings, articles in business magazines and other media, consultancy reports and, information available through the ministries, chambers of commerce, and other public bodies. Company financial details were extracted from the SABI database. All the data for all these companies and all the years analysed were downloaded and studied. Starting from this initial list, the second step was to rule out companies that did not qualify to be champions either because they were currently too big or they were leaders in their Spanish market niche but with a poor degree of internationalization. The last step was to analyse the champions' mission statements, their vision and their brand and market orientation.

All this information was complemented with thorough fieldwork, based on personal interviews, in order to capture the more qualitative aspects of the nature of the companies' management practices². Next, economic and financial data for 150 firms were obtained. Finally, the initial selection of Spanish hidden champions, 127 of whom provided an answer, were asked with one key issue in mind: which factor(s) the general manager of the firm owed the success of the company to. This qualitative question was asked over the telephone between the months of October and December 2015, and was addressed to the General Manager of the company's Spanish headquarters, although on occasions it was delegated and answered by other high-ranking executives. The question was articulated as follows: "State three

¹ For example, Simon's analysis identifies two leading companies in traditionally produced sparkling wines and a world leading producer of a lollipop, as Spanish hidden champions. However, we argue that they cannot be considered hidden champions as they have several trademarks well-known around the world.

² For consistency, we have followed the same questionnaire format used by CEEMAN (2011), a research report on hidden champions in Central and Eastern Europe (CEE).

management decisions, taken during the past five years, which have been key for the success of your company”. Some considerations may be helpful to understand the methodology that was applied:

- First, an e-mail survey based on some closed questions was discarded because it was considered it would not offer the richness and quality that were pursued;
- Therefore, a telephone interview was chosen, to allow an in-depth conversation required by the complexity of the subject;
- Being the objective to find out the “keys success factors of these companies”, the question was articulated as “most important management decisions” that can explain for the actual success. Of course, such a question was in fact the trigger for an in-depth conversation and not just a cold aseptic answer;
- Qualitative data were analysed weighing the importance of such decisions and organising them in factors;
- Limitations can come from the limited availability of the general managers, their general lack of time to devote to interviews and also a certain privacy and confidentiality of the subject: Answers at times were more vague and general than the interviewer would have desired. Future research lines will tackle these limitations.

Data for hidden champions were compared to general data for the European Union. In that respect, the most accurate and quality data come from Eurostat. The definitions of the three main variables studied are the following:

- Persons employed (defined as the total number of persons who work in the observation unit - inclusive of working proprietors, partners working regularly in the unit and unpaid family workers-, as well as persons who work outside the unit who belong to it and are paid by it, e.g. sales representatives, delivery personnel or repair and maintenance teams);
- Turnover (it comprises the totals invoiced by the firms during the reference period; i.e. market sales of goods or services supplied to third parties);
- Value added at factor costs (it is the gross income from operating activities after adjusting for operating subsidies and indirect taxes).

4 Data

We have compiled a database that includes the balance sheet and the profits and losses of each company for the period 1995-2015. Using this data, which was taken from annual corporate reports, we provide several indicators, including number of employees, value added, turnover, equity, EBITDA and cash flow. This allows us to describe accurately the nature of hidden and brand champions. Table 1 shows the main database indicators corresponding to 2015.

We identified 127 Spanish companies that qualify to be hidden champions (77) or brand champions (50). They are mainly SMEs (68.5%) and family-owned businesses (60.1%). Their average value added was approximately €31.6 million in 2015. Hidden and brand champions’ equity was €52.6 million and €53.3 million, respectively. The average turnover is €91.3 million for hidden champions and €71.2 million for brand champions, generating an EBITDA of €9.3 million and €15.8 million respectively for hidden and brand champions. Cash flow lies at around €9.3 million for hidden champions and €15.8 million for brand champions.

We also calculated various ratios in terms of leverage, return on shareholders’ funds, return on capital employed, return on total assets, liquidity and solvency ratios, which offer a clear profile of profitability and solvency for each company for each year available.

Table 1. Spanish hidden and brand champions: database summary (2015)

		Hidden Champions (1)	Brand Champions (2)	Aggregate (3= 1 + 2)
Enterprises	<i>Number of companies</i>	77	50	127
Company Seniority	<i>Number of years (average)</i>	44	32	39
Family Enterprises	<i>Number of companies</i>	51	26	77
Small & Medium Enterprises	<i>Number of companies</i>	48	39	87
Employees	<i>Number of Employees (average)</i>	251	202	231
Value Added	<i>Average (in euros)</i>	25,659,009	40,507,147	31,646,162
Turnover	<i>Average (in euros)</i>	91,309,110	71,194,330	83,198,312
<i>Revenues from exports</i>	<i>As a percent of revenues</i>	73.2	61.4	67.3
Equity	<i>(average, in euros)</i>	52,610,572	53,325,998	52,899,050
EBITDA	<i>(average, in euros)</i>	10,874,970	16,297,514	13,061,479
Cash Flow	<i>(average, in euros)</i>	9,338,237	15,861,030	11,968,395
Leverage	<i>(average, as a percent)</i>	48.9	53.9	50.9
General Liquidity	<i>(average, as a percent)</i>	1.9	2.3	2.1
Return on Shareholders' Funds	<i>(average, as a percent)</i>	17.3	24.2	20.1
Return on Capital Employed	<i>(average, as a percent)</i>	14.9	12.0	13.7
Return on Total Assets	<i>(average, as a percent)</i>	7.9	5.7	7.0
Liquidity Ratio	<i>(average, as a percent)</i>	1.4	1.8	1.6
Solvency Ratio	<i>(average, as a percent)</i>	51.0	46.1	49.0

Source: Authors.

In particular, in 2015, hidden champions' leverage ratio was below 49%, while for brand champions it stood at 54%. In addition, liquidity was above 2, which accounts for a solvency ratio over 50%.

The average profitability is high according to a return on shareholders' funds of 20% (17.3% for hidden champions and 24% for brand champions), a return on capital employed of 13.7% (15% for hidden champions and 12% for brand champions) and a return on total assets of 7% (8% for hidden champions and over 6% for brand champions).

Most hidden champions in Spain are small and medium-sized family-owned businesses that have their origins in traditional sectors such as textiles and clothing and the metal and chemical industries; they also have significant roots in the community in which they are located. Family firms are resilient, as they have certain characteristics that present special opportunities for them. Therefore, family firms can be relatively more innovative and entrepreneurial than their non-family-run counterparts (Chrisman *et al.*, 2011). They are global leaders in certain business-to-business (B2B) market niches, a position that is fiercely defended through continued investment aimed at improving products or output processes in terms of quality and precision. They compete in the top-end market to provide ultimate technical solutions (Service Vision is a good example of this) or by supplying highly reliable intermediate goods (Graphenea, for example); but above all, they are continuously building very solid business relationships with their

customers. Through them, they are able to discern market trends better and anticipate future developments. However, their customers demand high quality, so companies need to adapt and innovate in order to satisfy customers' needs. ANTEC is one such example. As production processes and technology mature, specialization needs emerge and the value added moves to component suppliers. According to Venohr & Meyer (2007) and Schaefer (2011), this factor, common to both German and Japanese industries, explains the origin of hidden champions. As noted by Myro & Gandoy (2009), Spain's industrial structure, especially since the second half of the 1990s, seems to have begun a process of divergence due to the stagnation in high-tech manufacturing, which is a distinguishing feature of the Spanish economy relative to other advanced countries.

Extreme specialization, as is the case of Metalogenia or Mikalor, invariably means that idiosyncratic investment is associated with high sunken costs. However, despite their business strategies, Spanish hidden champions are becoming highly profitable companies and leaders in their market niche, as greater openness in international trade increases national market size, making it possible to gain increasing returns from scales of economies and learning by doing. In addition, hidden champions are very competitive and flexible companies that are able to adapt to a changing global environment, as their versatility and ability to grow—even in uncertain and difficult situations like the present-day—have proved. While most Spanish industrial companies have lost market share to foreign companies located in China, South Korea, Taiwan or Malaysia, these Spanish micro- and small-sized companies have carved out sophisticated niches that are hard to enter. This is, for example, the case for Metalocaicho, which has a physical presence in both India and China so as to be able to enter these markets. Their extreme specialization could be considered, *a priori*, a weakness since these companies can also be ousted from their top position by companies from emerging countries capable of quickly assimilating technology that allows costs to be lowered (Kotha, 1995). The standardization of output processes, described by Vernon's product life cycle (Vernon, 1966), explains why many goods that incorporate certain technologies are becoming commodities. Indeed, if the production process or the medium-to-low technology product can be standardized, then eventually, it will be cannibalized by emerging market companies that are much more competitive in terms of costs.

Indeed, the real secret of Spanish hidden champions has been to focus their activity on very specific intermediate goods such as electrical components, chemicals (for example, Grifols) and precision machinery components (Telstar), whose mass production is extremely complicated due to final product specificity. Consequently, they personify '*tailor-made*'. Here, continued innovation and customization are two key aspects that hinder standardization and help to explain the success of hidden champions in Spain. Indeed, continued innovation and customization are two very powerful barriers to entry. Therefore, once these companies become technological leaders in their niche, it is difficult to oust them from that position. The control of empirical technology and the production processes accumulated over the years present a huge barrier to entry that prevents access by any potential rival.

On the other hand, by working closely with their customers, hidden champions become an active part of customers' strategic planning, as their ability to provide intelligent solutions in difficult situations makes them a strategic partner and an expert on their customers' specific needs. Many Spanish companies have refined their supply chain, made their production process more flexible and improved their distribution networks in order to reach distant markets as quickly as possible. Industrial companies, such as Mace, Ausa and Metalogenia, have even built their own machinery to develop their specific products not only to protect and improve their technology, but also as a mechanism to control output costs and maintain, paradoxically, a certain degree of independence from their suppliers.

Some champions have opened factories overseas to outsource production phases with lower value-added in order to allow them to focus on more specific activities located on the right or left of smile curve, that have raised as their core business activities.

Financial caution and close cooperation between management and employees are other hallmarks of Spanish hidden champions. They have built their own culture and practices with which their employees identify. This has resulted in the hidden champions achieving high productivity, low staff

turnover and absenteeism, and deep loyalty. In demanding times, these types of companies cannot afford to lay off staff because once they lose their best-trained people, it takes a great deal of time and money to find skilled workers. In these circumstances, the company staff becomes a key asset that should be continuously trained. In fact, the belief that the real strength of the company lies in the quality of its employees explains why these companies usually prefer gradual organic growth over time, rather than venturing into mergers or acquisitions.

Spanish hidden champions are quite conservative. Spain, like Germany, has a poor record of generating start-ups or at quickly turning small firms into giants. Spanish companies, as *mittelstands*, feel comfortable remaining small.

5 Results

5.1. SMEs as drivers of growth and employment in Spain

SMEs are key in Spain. According to the European Commission (2015), there are 2.22 million SMEs, representing over 99% of companies in the country. They provide work for more than 73% of Spanish employed people and generate over 63% of the national income.

The business structure is characterised by a large atomization (size of firms is very small), explained by the considerable importance of the tertiary sector in the Spanish economy. According to the INE (Spanish Statistical Office), 78.8% of Spanish companies are active in services, with retail trade at a significant 24.2%.

But the most remarkable feature of Spanish SMEs is their contribution to employment generation and value added creation. The SMEs' employment is 6.4 points higher than EU-28 average. In particular, smaller companies employ most workers. Micro-enterprises represent 40.6% and small- and medium-sized businesses almost 33% of total employment. On the other hand, SMEs' contribution to total Gross Value-Added (GVA) is 5 points higher than EU-28 average, with small and medium sized enterprises generating 36.7% of total GVA.

Indeed, as we can see in Figure 1, the importance of SMEs in the southern member states of the EU-28 (such as Greece, Italy, Portugal, and Spain, as well as certain Baltic countries such Estonia or Lithuania) is higher than in the rest of the European Union.

5.2. Evolution of employment, sales and value added

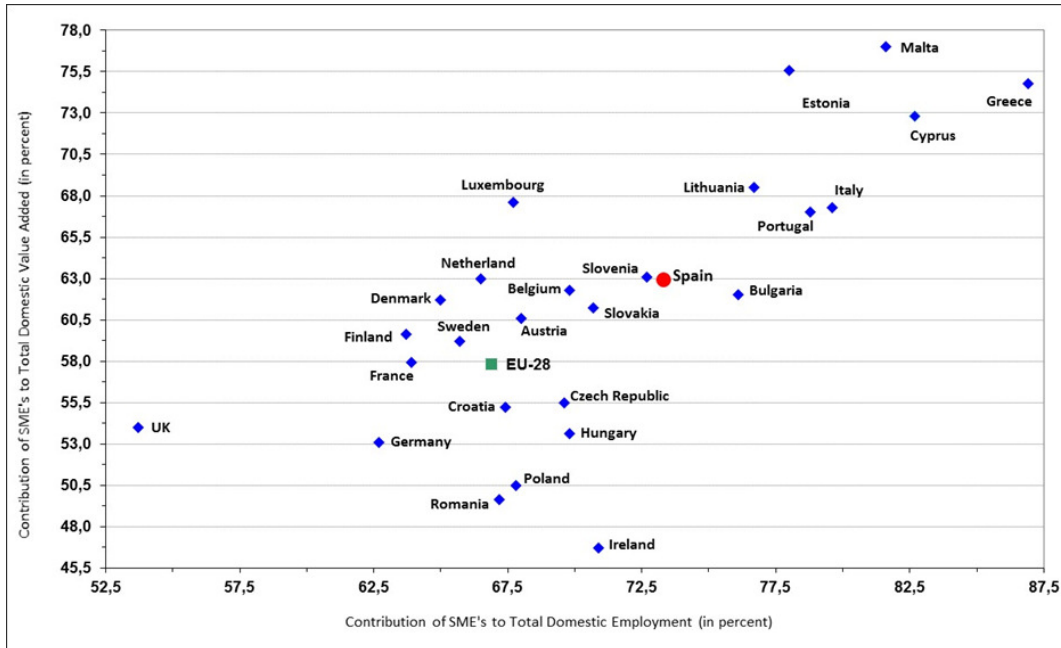
One of the objectives of this paper is to find out whether hidden champions are more successful than other businesses. But this leads to a further question: what is success in business? Of course, success depends on goals. If the goals are achieved or overachieved, a company is successful (Simon, 1996). Since one of the preoccupations of Europe, and indeed Spain, is employment, this one was the first variable that was chosen for analysis. Next, two additional variables were selected based on the two criteria of relevance and data availability (company data and Eurostat statistics). We therefore chose to analyse sales (or turnover) and value added. EU totals include data for all the member states that belonged to the European Union in the reference year.

5.2.1. Evolution of hidden champions

First, the evolution of the hidden champions was analysed for the years for which data existed; in this case, the period between 2001 and 2014. In those 13 years, two clear periods were detected:

- The boom years, where the GDP was growing (2001-2007);
- Followed by the recession years, characterised by a drop in the GDP (2008-2014).

Figure 1. SMEs contribution to value added and employment in EU-28

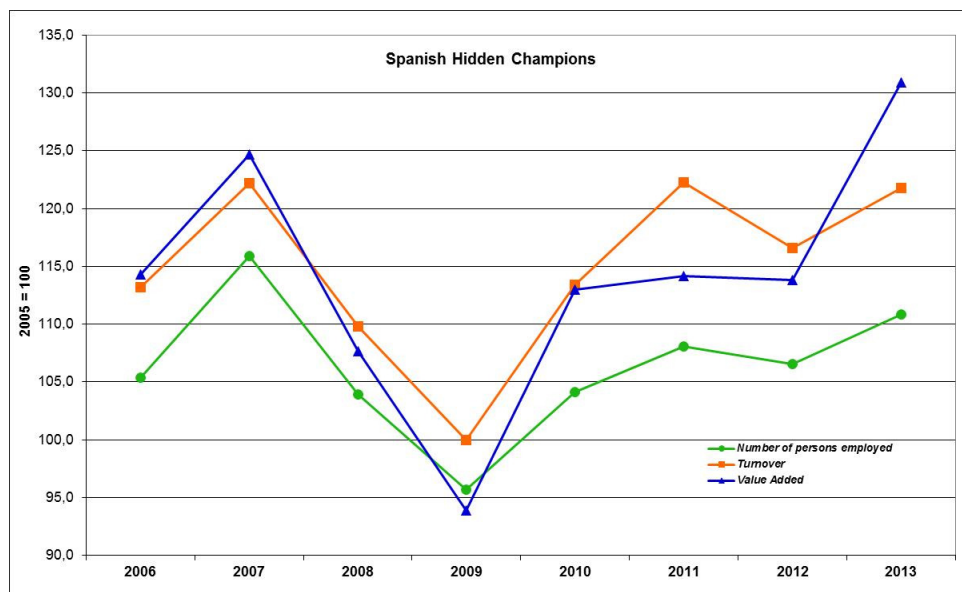


Source: Authors' own elaboration based on SBA fact Sheets by European Commission (2011).

Note: Estimates for 2014, based on 2008–2012 figures from the Structural Business Statistics Database (Eurostat).

The values taken reflect the average of each period. We expected to see a decrease in the variables analysed due to the negative impact of the economy in the second period (2008–2014) compared to the previous years. However, hidden champions saw the average number of persons employed increase by 7.5%, while sales went up by 16.1% and value added by 13.8%. These data clearly demonstrate the resilience of the hidden champions in difficult times. However, profit margins did show a slight decline, dropping from 6% on average for the 2001–2007 period to 4% in the recession years. Although this certainly represented a slowdown, at least the margins were still positive. Figure 2 shows the evolution of the three variables for hidden champions in the period.

Figure 2. Evolution of Spanish hidden champions 2006–2013



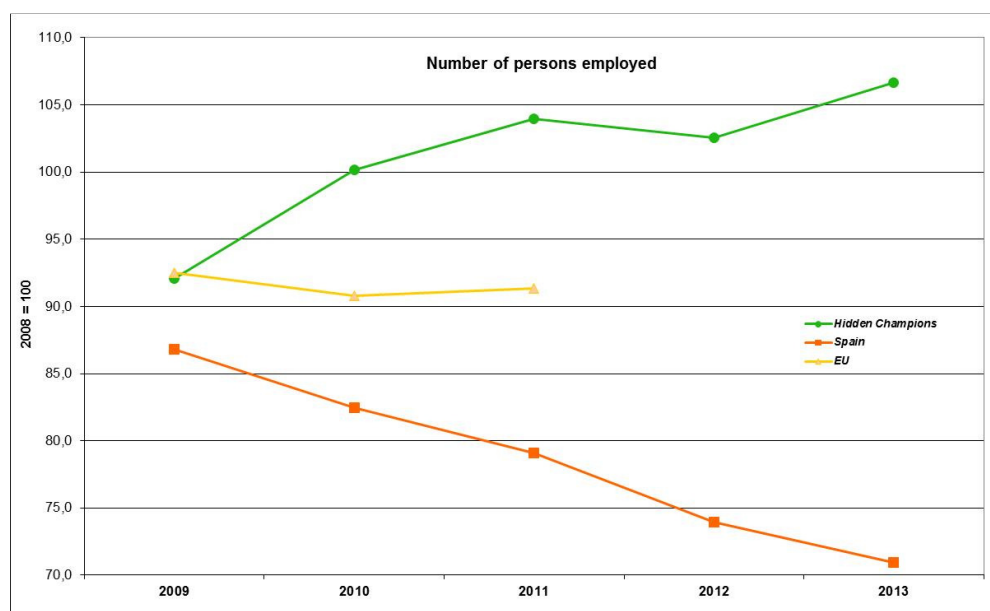
Source: Own research.

Subsequently, however, the analysis had to be restricted to the years 2005 to 2013 in order to compare it with European data. First, the behaviour of hidden champions was analysed for this period together with the variables number of employees, sales and value added. These firms all followed a similar pattern:

- The first two years (when the economy was still booming, 2005-2007), showed significant increases in the three variables of 15, 22 and 25% respectively;
- After 2007, the economic recession struck heavily and these companies were hit hard in the following two years, with losses of 8% in employment and sales, while value added was more seriously affected, dropping by 25%.
- However, by 2010, hidden champions had resumed steady growth and have continued to do so since then. In fact, in the period 2010-2013, employment went up by 6%, sales by 7% and value added soared by 16%.

Before we continue with our analysis, however, it would be pertinent to put these data into perspective by analysing the evolution of unemployment in Spain during this period. Rates went from 9.2% in 2005 to the extremely low level of 8.2% in 2007, but then soared to 20% in 2010 and to over 26% by 2013. This gives an indication of the severity of the recession that Spain was facing, which was the most acute that the country had ever experienced. However, while employment was lost by millions, Spanish hidden champions managed to react on time, maintain staff levels and even recruited after the first impact.

Figure 3. Comparison of number of persons employed in the EU, Spain and Spanish hidden champions



Source: own research and Eurostat data.

In conclusion, it can be confirmed that, in times of severe recession, Spanish hidden champions showed a high level of resilience and although their profits levels fell, they managed to keep and slightly increase their employment levels, while significantly increasing their sales and value added.

5.2.2. Comparison between Spanish hidden champions and their European counterparts

As has been stated before, most Spanish hidden champions are family-owned businesses. According to Amann & Jaussaud (2012), family businesses perform better and tend to recover to a greater degree or more easily from an economic downturn and persist in their stronger performance. In this section, we

compare the behaviour of the Spanish hidden champions analysed here with similar-sized manufacturing companies in Spain and the European Union to determine whether they perform better or not in situations of economic downturn.

A statistical analysis was carried out in which the behaviour, in terms of number of persons employed, sales and value added, of the 75 hidden champions was compared with:

- All manufacturing SMEs with 10 to 249 persons employed in Spain and in the EU as a whole;
- All small, medium and large manufacturing companies with more than 10 persons employed in Spain and in the EU as a whole.

We elected to study the period 2005 to 2013 as it allowed us to study the behaviour before the recession (2005-2007), when the crisis first struck (2008-2010) and the following years (2011-2013). A statistical contrast for equality of proportions was then carried out. With one exception—the evolution of value added for companies of 10 or more employees in the EU, which were inconclusive—all findings were significant. Therefore, it can be confirmed that hidden champions behaved differently in the period 2005-2013 in terms of employment, sales and value added, from the rest of manufacturing businesses in Spain and in the EU.

Table 2 shows the p -values for the contrast for equality of proportions. As can be observed, in all the cases except one, $p < 0.05$ holds.

Table 2. p -values YEARS

Variable	EU	Spain
Persons employed	0.0015	0.0133
Turnover	0.0000	0.0034
Value Added	0.0048	0.0588

Source: Own research.

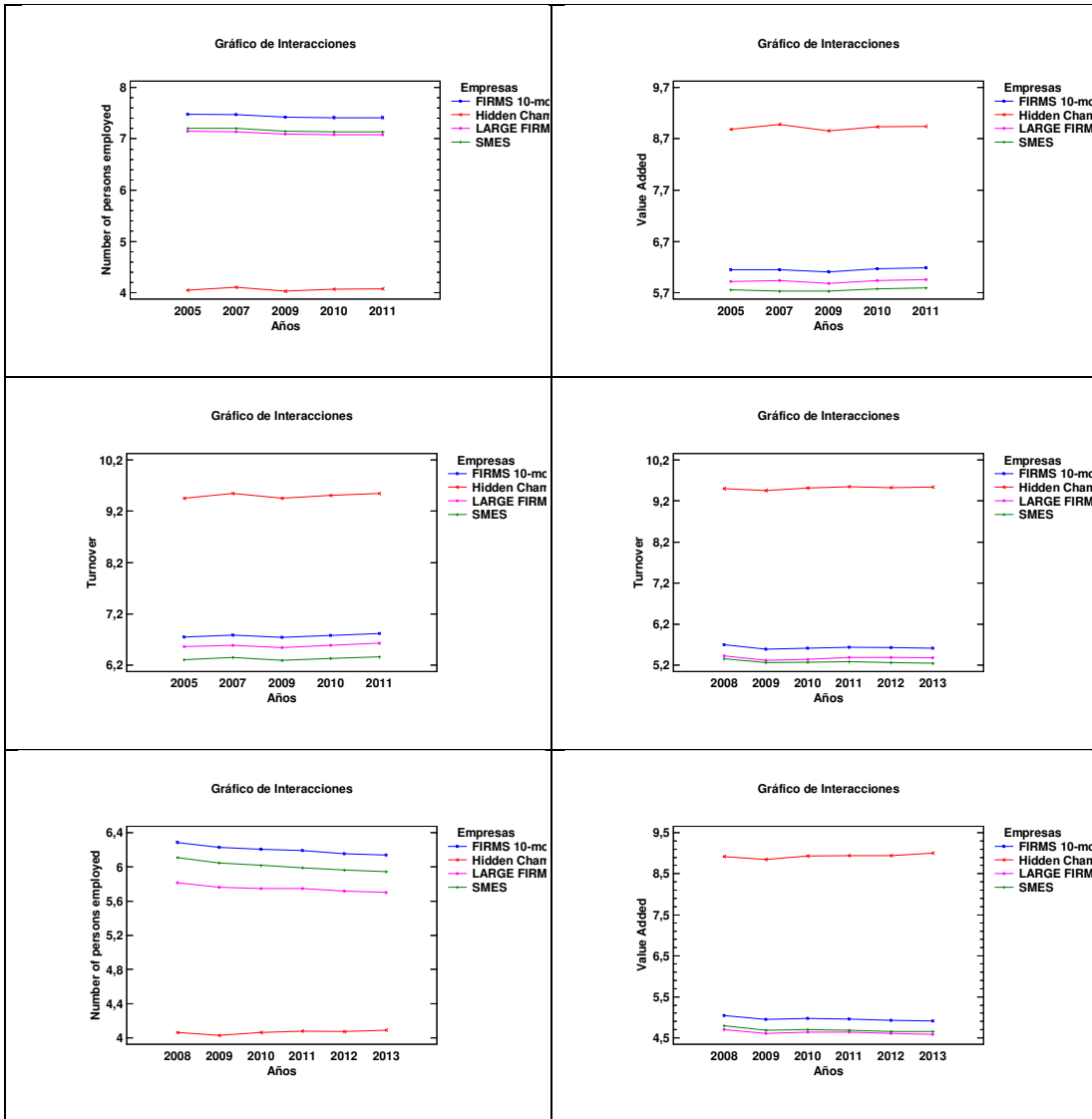
Figures 4 to 9 show the different patterns of behaviour for Spanish hidden champions in the three variables compared to EU and Spanish firms.

Table 3 shows the evolution of the three variables for manufacturing firms with 10 or more persons employed for Spanish hidden champions, Spain and the EU as a whole (27 countries), respectively:

The main conclusions that can be drawn from the table above are:

- Employment levels decreased for firms with more than 10 persons employed in both Spain and Europe as a whole; however, this is not the case for Spanish hidden champions, which were able to retain staff and even create new jobs;
- In terms of turnover, Spanish firms with ten or more persons employed suffered a decline in sales. Europe, on the contrary, managed to increase turnover in the same period as a whole, as did Spanish hidden champions. The most difficult years were 2008 and 2009. However, after that, a remarkable recovery can be seen;
- Regarding value added, a similar conclusion can be drawn: Spanish firms saw a decrease in their data, while European and Spanish hidden champions managed to resume growth after a decline in the years 2008 and 2009.
- While for firms the worst years on average were 2008 and 2009, a real recovery can be observed from 2010 onwards for Spanish hidden champions and European firms. However, data for Spain continue declining throughout the period, including 2013.

Figures 4 to 9. Hidden champions versus other firms; interactions for variables employment, turnover and value added



Source: Own research.

Table 3 Evolution of persons employed, turnover and value added, in manufacturing firms 10 or more persons employed)

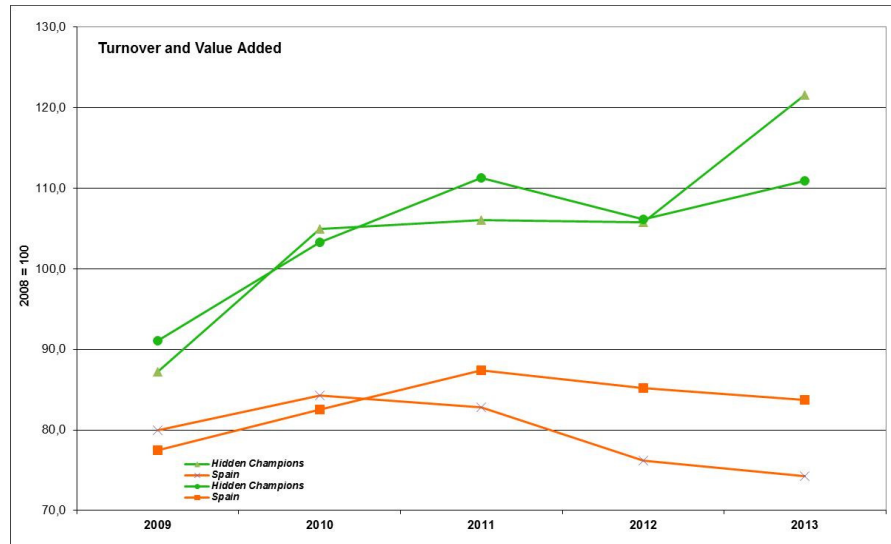
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Persons employed									
Hidden Champions	11,112	11,710	12,876	11,548	10,636	11,569	12,008	11,841	12,315
Spain	N/A	N/A	N/A	1,942,947	1,687,035	1,601,712	1,536,175	1,436,709	1,377,978
EU	29,818,200	N/A	29,663,800	28,274,000	26,148,500	25,678,500	25,820,500	N/A	N/A
Turnover (€)									
Hidden Champions	2,848,536,680	3,224,378,045	3,480,801,549	3,127,895,453	2,847,896,365	3,230,662,983	3,481,811,042	3,320,128,218	3,468,823,720
Spain	N/A	N/A	N/A	498,553 × 10 ⁶	386,203 × 10 ⁶	411,516 × 10 ⁶	435,787 × 10 ⁶	424,564 × 10 ⁶	417,638 × 10 ⁶
EU	5,633,104 × 10 ⁶	6,102,097 × 10 ⁶	6,166,050 × 10 ⁶	N/A	5,458,377 × 10 ⁶	6,039,207 × 10 ⁶	6,599,873 × 10 ⁶	N/A	N/A
Value Added (€)									
Hidden Champions	759,779,528	868,492,092	947,172,904	817,744,276	713,287,767	858,487,827	867,349,553	864,910,961	994,578,285
Spain	N/A	N/A	N/A	112,373 × 10 ⁶	89,873 × 10 ⁶	94,680 × 10 ⁶	93,052 × 10 ⁶	85,649 × 10 ⁶	83,411 × 10 ⁶
EU	1,400,605 × 10 ⁶	N/A	1,394,403 × 10 ⁶	N/A	1,292,053 × 10 ⁶	1,468,969 × 10 ⁶	1,526,607 × 10 ⁶	N/A	N/A

N/A: Not available

Source: own research and Eurostat

Figure 10 shows the comparison of evolution of turnover and value added in the EU, Spain and Spanish hidden champions in the period 2008 to 2013.

Figure 10. Comparison of evolution of turnover and value added in the EU, Spain and Spanish hidden champions in the period 2008 to 2013



Source: Own data and Eurostat.

5.3. Unveiling the management decisions behind hidden champions

Having established that Spanish hidden champions behave differently from their Spanish and European counterparts, the management decisions that lead to their success were then determined. A questionnaire was sent to over 100 hidden champions, 75 of whom provided answers, to determine the reasons which the general manager of the firm attributed the success and resilience of the company. This questionnaire was carried out over the telephone during the months of October and December 2015 and was addressed to the general manager, although on some occasions the interview was delegated and answered by other high-ranking executives.

The question was articulated as follows: “State three management decisions, taken during the past five years, which have been key to the success of your company. Choose from the list below [possible answers were suggested] or add new ones if you prefer”. According to Simon (1996), seven factors explain the success of hidden champions:

1. The market: Hidden champions define their markets narrowly. Consequently, their markets are relatively small. Following Porter (1985), hidden champions’ competitive scope falls within the narrow-target category of focus differentiated.
2. The world: Hidden champions did not become world leaders by staying at home and waiting for customers to call on them. Rather they went out into the world to make their products and services readily available wherever their customers were. Hidden champions export more than half of their production and occasionally up to 80 and 90%. They have a true global scope.
3. The customer: Hidden champions maintain close customer relationships that are characterized by a mutual dependence. Customers would normally find it very difficult to replace the products that hidden champions supply. There is a strong commitment on both sides that forms the basis for a long-term relationship based on trust and respect.

4. Innovation is central to all hidden champions. Most have achieved world- or continent-wide market leadership because they gained the lead in certain essential aspects of technology or management practices in their markets.
5. Strategy: Hidden champions' strategies take the form of differentiation rather than cost advantage, based on product quality and service. Their superior internal resources and capabilities are difficult to imitate and therefore allow sustainability.
6. The team: Employees identify with company goals and values more intensely than employees in average firms. Such high motivation leads to high productivity, and hidden champions are able to attract and retain talent better than most.
7. The leaders: Executives of hidden champions are highly focused on their business, and extremely enthusiastic and powerful. Continuity of leadership is a general trait, with the leader remaining at the helm for a very large number of years. Since hidden champions are also frequently family businesses, ownership and management functions often overlap, placing such leaders in very strong positions.

Following those seven factors, a list was made of the possible decisions behind their success. Table 4 shows the main management decisions, some of which were subsequently added to the original proposed list, that explain the superior position enjoyed by the Spanish hidden champions analysed in this study, or at least, how managers explain the success of their company.

Table 4. Management decisions, taken during the past five years, which have been key to the success of the company, by order of importance

Key management decisions for company success	Detailed description
Closeness to the customer (close relationships characterized by mutual interdependence with customers)	Solutions and design tailored to meet customers' requirements. Stress of the term "solutions provider". Consulting often offered as well, which constitutes an intelligent move towards services.
Continuous innovation	Incremental product and technology innovation (Freel & Robson, 2004). Continuous development of new products. Innovation at every corporate level and the most fundamental element throughout the company's entire structure.
Internationalization	Most of production exported or already manufactured in destination markets. World as a source of resources. They have a global approach and boast international alliances.
High product specialization	Extremely narrow focus but with a global approach
Talent management to create a high-performance organization that meets its strategic and operational goals and objectives	Very qualified, highly skilled workforce and talent retention schemes (Robson & Bennett, 2000), among others. Versatile teams, global thinking team players with continuous in-company training. Workforce as the main company asset.
Quality and Service	Products of the highest quality and with very high added value. Accent on quality standards and awards. Offer solutions to customers' needs, offering close collaboration through service.
Strong leadership	Strong leaders with simple, clear and unifying objectives; with a vision clear and big enough to provide a common vision (Drucker, 1988).
Communication of mission, vision and goals throughout the company (Simon, 1996)	Close cooperation between management and employees
Strong company identity	Company character backed up by ability to deliver on their promise, which drives the entire organization to perform.
Flexibility, lack of bureaucracy	Scanning the environment and reacting quickly to external changes (Box <i>et al.</i> , 1994)
Focus on being providers to top world customers	Significant barriers to switching exist for both sides, which leads to long-term relations.

As the culmination of our article and to exemplify the above, it would be worth describing in more detail two cases of Spanish hidden champions: one from the south and another from the north of Spain. They make two completely different products, but both are, in any event, champions and worthy of study.

Ice rinks and Andalusia are not words we usually associate, but then selling ice to Eskimos was never an easy task either. Xtraice typifies the Spanish Hidden Champions we analyse in this paper. Created twelve years ago in the south of Spain, where summer temperatures often exceed 45°C, Xtraice combines all the attributes that we have come to expect from these SMEs which surfed the crisis unscathed:

- World leaders in a very narrow and specialised product segment: Synthetic ice for entertainment and professional use.
- Certified product quality and environmental performance.
- International presence in 75 countries (most of the sales achieved outside of Spain).
- World renowned customer references.
- A team focused on innovation, state of the art engineering and training.

Another feature which perhaps characterises hidden champions is that they appear where you least expect them to.

At the other side of the state, in the Basque Country, we stumble across another hidden champion, Walter Pack, specialised in providing solutions for the design and production of plastic parts and thermoforming, mainly for the automotive industry. Besides dedicating a high proportion of its financial and human resources to R&D, innovation and training, Walter Pack is particularly interesting on two counts: they have a production plant in India (not a frequent occurrence for medium sized Spanish companies) and they are part of a network of companies committed to sustainable social and human development. Proof, if needed, that being a good corporate citizen can be a profitable activity.

As a future research line, the existence of regional differences among hidden champions in Spain will be studied.

6 Conclusions

Until now the analysis of hidden champions has been restricted almost exclusively to German industry. In this paper, hidden champions have been detected in the Spanish economy. These are characterized by mainly being small- and medium-sized companies —though there are a few slightly larger ones— with sales below 3 billion euros, occupying positions between one and three in the global or continental market and enjoying a low level of public awareness.

Spanish hidden champions place emphasis on their traditional strengths in their *'old-fashioned'* industries without mechanically copying other industrial development stereotypes. They have often found their market niches by accident rather than the result of any deliberate decision. Those market niches that initially appear small have evolved into huge global markets.

Spanish hidden champions can be considered good indicators of the maturity, stability and growth capability of the domestic economy: Our study shows firstly that Spanish hidden champions have greater resilience to the economic downturn, external shocks, and structural adjustment processes. Secondly, they are highly innovative and productive companies. Thirdly, the international competitiveness and export capacity of the Spanish economy relies on this particular type of SME, as they are sound and strong exporters in their very specific market niches, rather than on a few large-scale national champions. The fourth lesson is that Spanish hidden champions can help preserve high-quality jobs in a vast array of industries. Indeed, they are creating new jobs —well above the average for their manufacturing sector, and help curb the current emigration of skilled people.

In difficult times, hidden champions showed a high level of resilience and, although their profits levels were lower, they managed to maintain or indeed slightly increase their employment levels, while significantly increasing their sales and value added. In the period 2005-2013:

- Employment levels decreased for firms with more than 10 persons employed both in Spain and in Europe as a whole; however, it is not the case for Spanish hidden champions, which were able to retain staff and even create new jobs;
- With regard to turnover and value added, Spanish firms with ten or more persons employed suffered a decline in both. European firms, on the contrary, managed to increase their turnover and value added in the same period as a whole, as Spanish hidden champions did. The most difficult years were 2008 and 2009, but in the following years, a remarkable recovery can be seen;
- While for all firms the worst years were 2008 and 2009, a real recovery can be observed from 2010 onwards for hidden champions and European firms. However, data for Spain continue declining throughout the period, including 2013.

Having established that these hidden champions behave differently from their Spanish and European counterparts, we then aimed to establish what management decisions lie behind their success. To do that, the general managers of an initial selection of Spanish hidden champions were interviewed in order to find out which management decisions they owed the success of the company to. According to Simon (1996), seven factors explain the success of hidden champions: their market, the world, their customers, innovation, their strategy, their team and their leaders. According to our survey, managers believe that the main reason behind their company's success is the development of close relationships, characterized by mutual dependence with their customers that offer solutions tailored to meet their requirements. The second reason was implementing innovation at every corporate level, leading to the continuous development of technology and new products. The third reason behind their success is their global approach, international alliances and considering the whole world as a pool of resources. In fourth position the very high product specialization was placed, with an extremely narrow focus but global approach. The fifth place corresponds to talent management: The view of the team as the most valuable asset of the company and which was always highly qualified and supported by continuous training. Another point that was stressed was the importance of quality above competitors and offering an excellent service. Other reasons mentioned included leadership (strong leaders with simple, clear, unifying objectives), strong company identity, close cooperation between managers and employees, flexibility, lack of bureaucracy and finally, the focus on a few, top global customers.

In conclusion, we have detected a link between our quantitative data (coming from financial company information and Eurostat data) and our qualitative data, regarding the key management decisions that explain the success of a group of distinctive firms known as "Hidden Champions". Hidden champions in Spain may differ from those in other countries, but they do exist and represent a group of firms characterised by a different –and better in terms of results– behaviour. While these results are encouraging, future research lines open in order to analyse all this further: Are there regional differences in Spain?; What should the industrial policy strategy be?; How can the strategy for SMEs be moved towards a champion strategy?

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