

Finnish Hidden Champions: analysis on strategy and performance of market leader SMEs

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Risto Mäkeläinen
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INTRODUCTION

Hidden Champions are market leader companies in their narrowly defined market segments. The term “Hidden Champions” was originally coined by German business influencer Hermann Simon. They possess differentiated strategies, which can be observed from their distinctive characteristics. The characteristics can be encapsulated into eight aspects: strong leadership with clear and ambitious long-term goals, high-performing employees, depth in value chain, decentralization and continuity, focus on core competencies and core business, global orientation, high level of innovativeness and closeness to customer.

THEORY

Identification of Hidden Champions has been conducted in most of the countries in Europe, but Finland has remained mostly untouched. Author’s intention in this research is to familiarize the concept by identifying Finnish Hidden Champions among EY Entrepreneur of the Year Finland competitors. Moreover the research analyzes the performance of the identified companies. The theoretical part of the research establishes a five-folded framework for the purpose. The framework consists of an observational side and an action side. Observational side determines five objective key performance indicators, while the action side clarifies how these specific indicators will be measured.

EMPIRICAL RESEARCH

The empirical part of the study then tests the established framework in action. Two sample groups are formed for comparison purposes. The other group consisting of Finnish Hidden Champions in manufacturing industry, while the other sample group consisting of Finnish non Hidden Champions in manufacturing industry. Finnish Hidden Champions are also compared against Hidden Champions identified by Hermann Simon.

MAIN FINDINGS

The results of the empirical research reveal that Finnish Hidden Champions differentiate positively in terms of equity ratio and revenue per employees against both Finnish non Hidden Champion manufacturing companies, and their counterparts identified by Hermann Simon. In the study equity ratio was determined to be a yardstick of self-financing and long-term vision. High revenue per employee on the other hand signals of high productivity.

Keywords Hidden Champions, SMEs, business performance measurement, growth strategy

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JOHDANTO

Hidden Champions -yritykset ovat markkinajohtajia kapeasti määritetyillä markkinasegmenteillä. Termin "Hidden Champions" takana on saksalainen yritysvaikuttaja ja taloustieteilijä Hermann Simon. Differoituminen on keskeisessä asemassa näiden yritysten toiminnassa ja tämä strategia myös määrittelee heille selvästi erottuvia ominaisuuksia. Nämä erottuvat ominaisuudet voidaan kiteyttää kahdeksaan kohtaan: vahva johtamismalli, joka määrittää selkeät ja kunnianhimoiset pitkän aikavälin tavoitteet, poikkeuksellisen suorituskykyiset työntekijät, arvoketjun syvyys, ammattitaitoinen hajauttaminen ja liiketoiminnan jatkuvuus, keskittyminen omaan osaamiseen ja tärkeiden asioiden hoitaminen erinomaisesti, globaali suuntautuminen, korkean tason innovaatiokyvykyys ja erityinen panostaminen tärkeimpiin asiakkaisiin.

TEORIA

Monissa muissa Euroopan maissa on tehty tutkimusta, jonka tarkoituksena on maakohtaisten Hidden Champions -yritysten kartoitus ja näiden ominaisuuksien tarkkailu. Suomessa vastaavaa tutkimusta ei juuri ole harrastettu. Tutkimustavoitteena on tuoda Hidden Champions -konseptia esiin suomalaisessa kontekstissa. Tutkija identifioi suomalaisia Hidden Champions -yrityksiä EY:n kasvuyrittäjäkilpailun ehdokkaiden joukosta ja analysoi näiden suorituskykyä. Teoria muodostaa viisiportaisen viitekehysten, jonka avulla suorituskyvyn mittaaminen toteutetaan. Viitekehys koostuu kahdesta osasta, joista toinen käsittää havainnointivaiheen ja toinen toimintavaiheen. Havainnointivaihe määrittää viisi objektiivista suorituskyvyn indikaattoria ja toimintavaihe oikeat mittarit indikaattorien analysointia varten.

EMPIIRINEN TUTKIMUS

Tutkimuksen empiirinen osa testaa viitekehystä käytännössä. Tutkija muodostaa kaksi vertailtavaa ryhmää, joista toinen edustaa suomalaisia valmistavan teollisuuden Hidden Champions -yrityksiä ja toinen suomalaisia valmistavan teollisuuden yrityksiä, jotka eivät täytä Hidden Champions -yrityksen tunnusmerkkejä. Suomalaisen vertaisryhmän lisäksi tutkimus vertailee suomalaisia Hidden Champions -yrityksiä Hermann Simonin määrittelemiä Hidden Champions -yrityksiin.

KESKEISET JOHTOPÄÄTÖKSET

Tutkimuksen tulokset osoittavat, että suomalaiset Hidden Champions -yritykset erottuvat edukseen verrattuna muihin suomalaisiin valmistavan teollisuuden yrityksiin ja Hermann Simonin määrittämiin Hidden Champions -yrityksiin. Erityisen selvästi suomalaiset Hidden Champions -yritykset erottuvat mitattuna omavaraisuusasteella ja liikevaihdolla per työntekijä. Tutkimuksessa korkea omavaraisuusaste määriteltiin kuvaamaan omarahoitusta kasvustrategian osana ja pitkän aikavälin orientaatiota. Korkea liikevaihto per työntekijä puolestaan on korkean tuottavuuden indikaattori.

Avainsanat Hidden Champions, pk-yritykset, suorituskyvyn mittaaminen, kasvustrategia

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1. INTRODUCTION

1.1 Background

Why do some companies succeed when so many fail? Modern management literature and research has faced this dilemma from various directions and sought to explain it. Jim Collins's book *Good to Great* (2001) is a great example of the above. The acclaimed book analyzes success concepts of famous multinational companies such as Gillette, Philip Morris and Pitney Bowes. Companies introduced in Collins's book have managed to create sustainable and successful businesses and outperformed their markets. Like *Good to Great*, there are plenty of literature and research on large companies' strategies; however these tend to vary a lot from those of "Hidden Champions".

In this research author's intention is, instead of entering into the world of these giant multinationals, to study something not so familiar for the larger audience. Hence, this research emphasizes in companies that:

1. Defines narrowly their markets, i.e. are operating in niche markets
2. Are global market segment leaders or close to that
3. Are relatively unknown for larger audience
4. Are performing better than the market in general

According to Hermann Simon (1996), a German business influencer, professor and founder of the consulting company Simon-Kutcher and Partners, there is a relatively large group of small and medium sized companies (hereafter referred to as SME), that are global market leaders in their narrowly defined market segments. Simon calls these companies super nichists (1996). These companies own characteristics of differentiation strategies proposed by Porter (1980). Despite of their success, strong export performance and global

orientation, most of these companies are unknown for large audience. Usually these companies are privately held or family-owned single-product manufacturers with long-term goals and visions. Simon has coined the term Hidden Champions, Heimliche Gewinner in German language (hereafter referred to as HG) to illustrate these companies.

Simon has identified and researched HGs especially in Germany, but according to his research such companies exist also elsewhere, especially in other German-speaking countries and Scandinavia (Simon, 2009. p. xiii). Therefore it seems to be justified to assume that these market leader SMEs exist also in Finland. Assuming that HGs exist in Finland, it is reasonable to ask, what difference it makes to study HGs? Why would it be beneficial to identify such companies and learn their characteristics and strategies? The author will introduce three phenomena related to Finnish economy, and create reasoning for learning from Simon and HGs. The author will begin by clarifying the role of SME sector in European Union in general and in Finland.

European Commission's most recent Annual Report on European SMEs (2013, p.11) states:

"SMEs are significant for the European economic recovery - their number, employment capacity and value added constitute a large share of the European economy."

More over the report highlights the crucial role of the European manufacturing sector and introduces the Europe 2020 vision:

"“Europe 2020” vision is promoting the European industrial structure that is competitive, innovative and capable of withstanding the global challenges. Within this vision, manufacturing SMEs are invested with the important role of driving growth and generating new employment."

The same report (2013, p. 10) states that SMEs, without micro companies included, (see Appendix 1 for company size classification) represent 7,7% of total companies in EU,

37,8% of total workforce and 36,6% of value added at factor costs. By looking at these numbers only, it is clear that SME sector is important for European economy.

In Germany the amount of total value added of SMEs, without micro companies is 38,7% (European Commission SBA Fact Sheet Germany, 2013, p. 2). In Finland the corresponding number is 36,5% (European Commission SBA Fact Sheet Finland, 2013, p. 2). To form an even better picture of the current situation it is necessary to compare the role of SMEs with large companies in Finland. As noted above, in 2013 SME sector (without micro-companies included) provided 36,5% (€31 billion) of value added of all companies, while 42,9% (€36 billion) was provided by large companies. SME sector employed 539,123 people, which is 38% of the total work force. As a comparison large companies employed 528,076 people, which is 37,2% of total work force (European Commission SBA Fact Sheet on Finland, 2013, p. 2). As can be witnessed SME sector is slightly behind large companies in terms of value added, but employs more people than large companies. Descriptively the numbers reveal that Finland is depending on a strong SME sector.

However, despite the numbers above, SMEs (including micro-companies) generates only 14% of total exports in Finland, while large companies share is 83% (Finnish Customs, 2014). In Germany the corresponding number for SMEs is 19% (German Federal Ministry of Economics and Technology, 2012). In this context the difference between SMEs and large companies in Finland is alarming. If a small country like Finland suffers of Bigness complex (Adams and Brock, 1986) it might have negative effect on economic productivity and progress among other pitfalls. The biggest conflict here lies on the competitive and promising premises that Finnish environment offers for SMEs and entrepreneurs as a whole. According to European Commission Finland offers one of the best conditions for entrepreneurs and SME owners in Europe (European Commission SBA Fact Sheet Finland, 2013, p. 1). Nevertheless Finnish SME sector is in a stagnant situation at the moment, and

the growth forecasts are not too flattering (European Commission SBA Fact Sheet on Finland, 2013).

Second reason for learning from HGs and Simon is related to the development of Finnish economy over the last two decades. In the past Finnish economy was prominently dependent on Nokia – de facto, but also heavily from the psychological perspective. In 2000 Nokia's share of Finnish total GDP was almost 4%, a significant portion for one company in any country. What makes it more thrilling is the fact that Nokia's contribution to Finnish GDP was negative only 12 years later in 2012. Even more astonishingly Nokia's share of corporate R&D expenditure in Finland, which was slightly over 40% in 2009, dropped to 17% by 2013 (Ali-Yrkkö, et al., 2013. p.5-6). In twenty years a strong cluster of companies was formed from the influence of Nokia - a similar cluster that was formed around Finnish wood industry. Unfortunately both of these clusters have faced serious turbulence during the last years. Naturally Nokia's down-turn and challenges of Finnish economy are not mutually explanatory of one to the other; however discussion on Nokia leads us to a larger threat.

If we focus on the ICT sector in Finland, we can witness how the employment figures in equipment manufacturing have decreased during the last five years. According to Ali-Yrkkö, et al., (2013. p.6) this is because the ICT sector is not relying on Nokia anymore and the smaller service-oriented software firms have filled the cap left by the equipment manufacturers. Telecom industry is not the only witness of this shift. In a larger scale this orientation is a sign of a movement from manufacturing industry to service industry. When taking a closer look to the situation of Finnish manufacturing industry we discover a downward trend, even in the most current studies. In a study by Official Statistics of Finland (2014) the turnover of manufacturing industry from November 2013 to January 2014 was 4.2 per cent lower than in the corresponding period of the year before. The periodical tendency is not unique, instead it has continued for a longer period. Another

study focusing in the future of Finnish economy by Finnish Government Institute for Economic Research (2013) indicates that the overall growth of Finnish manufacturing sector will continue to slow also in future. In the light of the above-mentioned facts and approximations it is relevant to ask what remedies should be invented in order to improve Finnish manufacturing sector or should there be any? Should we just hope that service industry can fill the gap?

The third reason, which makes learning from HGs interesting, is the negative balance of trade in Finland. Finnish balance of trade has declined steadily along the last ten years (Bank of Finland, 2014). Two reports, from Finnish Government Institute for Economic Research (2013) and Finnish Federation of Technology Industries (2013), predicts that export growth in Finland is no longer expected to return to pre-financial crisis level. However, the latter report emphasizes the role of the manufacturing industry as an export promoter in future. The report states that SMEs direct exports could well be a redeeming factor in order to stabilize Finnish balance of trade. It might be so, but where to find these strong export SMEs? Can the ICT cluster alone save Finland?

The three above-mentioned aspects: major role of SMEs, importance of the manufacturing sector, and Finnish companies export performance are just a few challenges that Finnish economy is facing today as well as in future. In any case the debate regarding the future of Finnish economy is intense. Decision-makers and business influencer are asking each other questions and introducing redeeming aspects. What should be done in order to improve the current situation? How to ensure the future of the welfare state? What are the new sources of growth? Trendy industries such as cleantech, gaming and wellness are mentioned in many instances. General debate speaks on behalf of service-centric businesses, specialization, quality and innovativeness. Conversation arouses and opinions are presented. In these circumstances it is relevant to ask again, what HGs, most often

manufacturers of a single-product, can teach us. If you are willing to learn more, please continue reading!

Authors' own motivation to study HGs in Finland firstly formed from discussions with Aalto University's professor Arto Lahti in autumn 2013. Additionally author's interest in innovative business strategies, distinctive company performance and its measuring, as well as SMEs in general, springs from the fact that he has lately established his own company in a niche market. Moreover HGs ideology is a new concept in Finland and might potentially bring new knowledge for decision makers and the scientific community.

The Master's Thesis is done in collaboration with EY Finland (formerly Ernst & Young Finland). From author's point of view this collaboration is prolific for two reasons. Firstly the author has worked at EY for almost two years and has been able to closely follow EY Entrepreneur of the Year competition (hereafter referred to as EOY). EOY can be seen as one of the most admired competitions supporting growth entrepreneurship in Finland as well as globally. Secondly in discussions with EY EOY competition leader Lauri Oinaala it was noted that this kind of research might be beneficial for future EY EOY competition organizers in Finland.

As a clarification authors' intention is not to show in any level how HGs have a significant contribution to Finnish economy, like Hermann Simon has shown in respect to Germany. Such research would need a much wider and focused study. Instead the intention is to stimulate discussion. Signs of the relevancy of the topic are clearly visible in Finland at the moment. Arto Lahti at Aalto University has conducted pioneering research on HGs and brought the concept more familiar to larger audience. Additionally in spring 2014 there are two other events that will introduce the concept of HGs to a larger audience. Kauppalehti, a leading Finnish business publication, has identified Finnish HGs in April 2014 in a form of a story series published in the newspaper. Also German-Finnish Chamber of Commerce has held a seminar on the topic in May 2014

1.2 Research Gap, Research Objectives and Research Problems

As noted Hermann Simon has studied HGs in a global level with main focus on German companies. Simon characterizes HGs as top performers and introduces their distinctive characteristics and strategies from what he calls “average companies”. Simon has clearly shown how HGs have positively contributed to Germany’s export success and thereby to Germany’s economic success. Even Simon’s work has been noted in a various countries over the world, there has been relatively minor attention in Finland. A broad purpose of the research is to offer a starting point for future researchers (maybe even the author himself) in order to research Finnish HGs and thus earn awareness of the concept. For the above-mentioned reasons the author has an intention to determine Finnish HGs. The sample for identification was limited into Finnish manufacturing companies that have participated in EY EOY competition. The identification of HGs enables to research how the identified HGs perform against their respective industry and against HGs determined by Hermann Simon. In other words the first objective of the research is in identifying Finnish HGs among EY EOY competition competitors. The second objective is to identify right KPIs for comparing purposes. Finally the third objective is to compare the identified HGs against their industry and against HGs determined by Simon.

Hence the research question of this Master’s thesis is:

1. Do Finnish manufacturing HGs perform better in comparison with Finnish non-HG manufacturing companies and HGs identified by Hermann Simon?

1.3 Methodology

The study is divided into two parts: theoretical and empirical. The theoretical part is divided into two. The first section will deal with HGs strategy and analyze how the strategy differ from related theories and what kind of similarities does the strategy possess with existing theories in the field. The author will also touch upon the KPIs, which were chosen

in order to analyze HGs performance. The KPIs were carefully chosen and validated by the author, based on Simon's research (1996, 2009) and justified by existing research on the field. The identified KPIs are financing method, profitability, productivity, internationalization rate and innovativeness. Respective metrics for each KPIs are equity ratio for financing method, return on capital employed for profitability, revenue per employee for productivity, amount of foreign subsidiaries for rate of internationalization and amount of patents per thousand employees for innovation. The hypotheses are then formed around these KPIs. In the second chapter of the theoretical part, the author will concentrate in BPM.

The empirical part is divided into two parts. Firstly among 436 Finnish companies that have participated in EY EOY Finland, 102 manufacturing companies were sorted out. The classification into industry sectors was conducted with NACE Rev.2 classification (European industrial activity classification, 2008, p. 43). Subsequently 12 HGs were identified based on the selection criteria determined by Simon (1996; 2009). As follows the companies were compared to 90 non-HG Finnish manufacturing companies, meaning all the EY EOY competitors that operate in manufacturing industry. A qualitative questionnaire was sent to participating companies. The data collected from the questionnaire was supplemented by author's own interviews with experts on the field, earlier interviews of company representatives by EY, data from companies' websites as well as data from Nordic company database Odin. In the data analysis phase the author was then seeking for differences in performance among the Finnish HGs and Finnish non-HGs.

1.4 Limitations

Only a small proportion of potential HGs in Finland were taken into account in this research. By investigating a larger set of Finnish companies the amount of HGs would have probably been bigger as can be seen for example from Kauppalehti's research in May 2014.

It is also worth remembering that identification was made among a group of certain type of companies, namely growth companies chosen by EY for their growth entrepreneur competition. This is in line with the presumption that HGs are usually growth companies. However not all the companies chosen to the sample fulfilled the HG criteria in terms of revenue growth. In addition the HG concept is still relatively new for the scientific community and mostly relying on Simon's own and his company's research. Even some research have been conducted the attention has been quite minor, yet. For this reason a certain lack of objectivity exists when examining HGs, especially from the theoretical perspective. After becoming familiar with the topic the author strongly believes that HGs are worth the focus.

1.5 Definitions

SME: SME stands for small and medium-sized enterprises. European Commission has defined the main factors in order to determine whether a company is a SME. The factors are illustrated in Appendix 1.

BPM: Business Performance Measurements or metrics determines an organization's behavior and performance. Performance metrics measure of an organization's activities and performance.

HGs and non-HGs: Hidden Champions are companies that are number one, two or three in the global market, or number one on their continent, revenue below €3 billion and low profile of public awareness. In this research HG describes a Hidden Champion company, while non-HG describes a company that is not a Hidden Champion company.

EOY: EY (formerly Ernst & Young) Entrepreneur of the Year competition is an admired global competition for successful entrepreneurs organized by EY. Every year EY's local offices choose entrepreneurial companies on a certain criteria and awards country level

winners. Then the country-level winners compete in the global competition. EY Entrepreneur of the Year competition in Finland was held from 2003.

1.6 Structure of the Thesis

The study is divided into two parts theoretical and empirical. The theory part consists of two chapters. The first chapter of the theory part (chapter 2) emphasizes into the background, criteria, characteristics and success factors of HGs. The chapter will view HGs strategy in the light of other related strategies. The second chapter of the theory part (chapter 3) is about BPM, and has four sub-chapters. The first sub-chapter illustrates BPM characteristics, attributes, reasoning and sources in a generalizing level. The second sub-chapter concentrates in background and current state of business performance measurement. The third sub-chapter examines EY EOY competition and compares the methodology of the competition with the methodology of HGs. The fourth sub-chapter introduces the theoretical framework of the study. First chapter of empirical part (chapter 4) is about research methodology. The second chapter of the empirical part (chapter 5) introduces the results of the empirical research. The sixth sub-chapter then concludes the Master's Thesis.

2. DEFINITION OF HIDDEN CHAMPIONS

This chapter concentrates in explaining more precisely the concept of HGs and why HGs are special and worth research. Moreover the chapter introduces the BPMs that are utilized in order to analyze HGs, and offers reasons to the selection of these specific BPMs. The chapter also analyzes more precisely the background, selection criteria and the characteristics of HGs in the light of existing theories. When discussing of HGs and their success, Germany's economic characteristics and conversation on its economic success cannot be avoided. Therefore basic doctrines on Germany's economic characteristics are included in the chapter. Finally the conversation will be led to HGs BPMs, which then enables formulation of the theoretical framework and comparison of HGs and non-HGs.

2.2 Background of Hidden Champions

First miracle – Germany's export power

To better understand HGs and their success it is reasonable to analyze the characteristics of German economy. Germany's export superiority and economic success can be explained with a several factors. Venohr et al. (2007, p.2) states, that despite mediocre macro-economic performance of the German economy, German companies are successful players in global trade. They give credit for the successful SME sector and its outstanding export performance. Lahti (2014, p.141-158) provides a wider explanation and more specific success factors for German export superiority including: strong education system, economic structure that support both large companies and SMEs, high share of research-intensive industries, urbanization-centric economic geography etc. Moreover we can seek explanation to the phenomenon from historical school of economics that emerged in the 19th century in Germany.

Two theories of two economists representing German historical school; Friedrich List and Joseph Schumpeter, have had their contribution to the development of Germany economic structure. Friedrich List (1789-1846) proposed that a nation's true wealth is its productive power, rather than its exchange value, which can be seen in Germany's strong manufacturing sector. List also was a prominent advocate of temporary tariffs on imported goods, which would increase domestic growth and would create competitive advantage in the light of foreign competition (List, 1841; Lahti, 2014 p. 135-136).

Joseph Schumpeter continued on List's path. Schumpeter's ideas on creative destruction and creative accumulation are important in terms of understanding Germany's advantage regarding its competition policies. Creative destruction creates economic discontinuities, and in doing so, an entrepreneurial environment for the introduction of innovation, and earning monopoly profits. Schumpeter's ideology on creative destruction in regard of HGs is also emphasized by Simon (2009, p. 30). On the other hand creative accumulation is associated with institutionalized innovation by big firms that carry out innovation along established technological trajectories and even try to prevent the entrance of newcomers (Lahti, 2012). Schumpeter's theory symbolizes the harmony of SMEs and large companies, which is enabled by German competition policies.

By concluding this short section on German economy we can remark that Germany is an exceptional environment for companies - an environment where both SMEs and large companies can operate and succeed exceptionally well. As of which Germany's export performance is probably the most prominent example.

Second miracle - Hidden Champions

De facto Germany's strong export performance was the reason why Hermann Simon began studying HGs in 1986 (Simon, 2009, p. xiii). Simon had collaborated with Theodore Levitt - famous among other from popularizing the term "globalization". Simon was interested on

the fact that Germany, a relatively small country by surface and population, was one of the world leading countries in exports. Simon suspected that there could be a link between strong SME sector and remarkable export performance. While Simon went further in his research he realized that similarly to Germany also in other German speaking and Scandinavian countries the SME sector is strong. In comparison with other large economies such as France, USA and Japan, where large companies were more dominant exporters and the role of SME sector was less significant, total export performance was worse (Simon, 2009, pp. xiii-xv). After further evaluating his research Simon realized that a significant number of SMEs especially in Germany are market leaders in their industry segments. According to Simon (2009, p. 1) these companies can be seen as super performers in terms of globalization and exports. In most cases these companies' growth figures were extraordinary good (Simon, 2009, p. 30). Simon (2009, p.61) also noted that many of the identified companies were innovation-oriented single-product manufacturers, often privately or family owned.

The purpose of this sub-chapter was to give a more explicit image on the background of HGs and explore how Simon has formulated the HG concept. In the following sub-chapter the author will concentrate in the criteria of HGs and explain how a certain company can be qualified as HG.

2.3 Selection criteria of Hidden Champions

Simon (2009, p.15) raises three descriptive and distinctive criteria for HGs:

1. Number one, two or three in the global market, or number one on its continent
2. Revenue below €3 billion
3. Low profile of public awareness

As follows the selection criteria will be illustrated more precisely by the author.

Market position

Market position is usually determined by market share. If a company does not know its exact market share, Simon (2009, p.51-55) uses the relative market share (company's own market share divided by the market share of its strongest competitors). In addition, as it is not possible to monitor every market with certainty, Simon relies on the market share information provided by the companies themselves. The following clarification is important also from this research's perspective, since most of the Finnish HGs, are recognized with this specific method. This means that the author has relied on subjective information provided by the company itself. If a company is stating that it is a global market leader in its webpage the author has relied on the proposition.

Revenue limit

The revenue limit is set for distinguish HGs from large companies or Big Champions (Big Champion used to be a HG that have grown over the revenue limit). Simon's definition of SMEs differs a lot from European Commissions definition (appendix 1). Simon explains the difference by the relatively small size of HGs in comparison with Fortune 500 companies (Simon, 2009, p. 15). In other words an average HG is still much smaller than an average Fortune 500 company. Considering author's research there is a strong pre-assumption that Finnish HGs are a lot smaller by operating revenue compared with their German counterparts. The reason is the size difference of the two countries and their economies. To make a quick comparison the author chose five metrics that enables the comparison of Germany and Finland. In table 1 are described: countries population, labor force, GDP (purchasing power parity), total value added of SMEs and exports.

Table 1. Comparison of German and Finnish economies

Factor	Germany	Finland	Finland is smaller
Population	~ 81,1M	~ 5,2M	~ 15 times
Labor force	~ 44,2M	~ 2,6M	~ 17 times
GDP (purchasing power parity)	~ €2,3T	~ €141B	~ 16 times
SME value added	~ €745B	~ €48B	~15 times
Exports	~ €1,07T	~ €54,6B	~ 20 times

Source: Central Intelligence Agency, 2013 and European Commission, 2013

To make just a quick analysis based on the five comparison factors we can estimate that Finnish HGs are 15 to 20 times smaller in comparison with German HGs.

Low level of public awareness

According to Simon (2009, pp.15-16) low level of public awareness cannot be quantified precisely, but over 90% of the companies included in Simon's study met this requirement from the qualitative point of view. Majority of the HGs are operating in industry-sectors that have low level of public awareness in general. They might be suppliers of a component that is used in a known product, but their own products are not familiar for large audience. Furthermore it is worth noting that most of the HGs are satisfied of being unknown and are even benefiting from the current situation (Simon, 2009, p.14). In author's research the low level of public awareness was a challenging task to analyze reliably. Author has relied on his own knowledge of Finnish business landscape. Majority of the companies chosen to the

research are unknown in Finland, so there is a doubt that they are even more unknown in a global level.

2.4 Characteristics of Hidden Champions

After establishing a level of knowledge on the background and criteria of HG we continue in identifying the distinctive characteristics of HGs from Simon's perspective. Simon (2009) has established a framework considering the most distinctive strategies of HGs. The eight characteristics or three circles and eight lessons as Simon calls them are:

1. Leadership with ambitious goals
2. High performance employees
3. Depth
4. Decentralization
5. Focus
6. Globalization
7. Innovation
8. Closeness to customer

As follows the author will describe each characteristic shortly.

Leadership and goals

Simon stresses that HGs set their ambitious goals high. The founders and managers of HGs know what they want and are ready to fight for their visions and missions. The personality of these leaders is usually bounded around powerful will. This willpower is something that the leaders of HGs then spread around them into co-workers. In other words, leaders of HGs know what they want and they are ready to work hard to get there. What matters is to

be the best. Leaders of HGs tend to remain in their position for a long time. In this context it is justified to note that HGs are often family-businesses led with long-term vision. The long-term vision reflects heavily to the overall strategy, for example financing. HGs often tend to rely on self-financing and are rarely pursuing for short-term profit maximization (Simon, 2009, pp. 29-57; pp. 351-352).

High-Performance Employees

HGs are built around strong teams. The employees are chosen very rigorously primarily through social control. Every worker must give their best bet in an environment where there is more work than people. In HGs employee turnover is low, which indicates that the chosen employees are fit to the environment and signifies that HGs employees are committed and high performing from the beginning (Simon, 2009, p. 352). When taking number of employees as the yardstick for growth, in many HGs the revenue has grown even without any increase in employment figures. This can be seen as a sign of high productivity (Simon, 2009, p. 42).

Depth

There is a remarkable difference between the HGs and normal companies in terms of depth of the value chain and the high vertical integration. This means that HGs avoid outsourcing or entering into strategic alliances especially concerning their core competencies. HGs rely on their own resources for example in R&D, which is an asset regarding product differentiation. Simon raises a question whether this “depth” is old-fashioned or the core of their superiority. He doesn’t have a holistic answer, but at least this uniqueness is something that separates HGs from other companies (Simon, 2009, p. 353).

Decentralization

HGs are led by centralized authoritarian methods, but only what comes to principles. On the other hand HGs support decentralized leadership and leaving more freedom for workers compared to large companies, especially what comes to execution and implementation. When HGs face barriers of growth regarding to their narrow market scope they might choose soft diversification. This means that new legally independent business units, usually foreign subsidiaries are created and decentralization occurs as a mean of mobilizing entrepreneurial energies (Simon, 2009, p. 353-354).

Focus

HGs are companies that are usually focused on one thing and do that one thing well. According to Simon focusing on one thing is the only way to attain world class. HGs effectively use their scarce resources and are aware of the things they cannot do (Simon, 2009, p.354). A strong evidence of HGs exceptional focus is that they often are successful single-product manufacturers.

Globalization

In global perspective even smallest niche markets might be potential. Since HGs are “cross-border players”, globalization has an important role in their business. Despite of their narrow market segments, HGs strive for market leadership. Establishment of foreign subsidiaries is usually the path for globalization and an important part of HGs “cross-border strategies” (Simon, 2009, p.355).

Innovation

HGs are characterized by their innovativeness. They integrate market and technology equally, which is rare among large companies. HGs have five times more patents per employee than large corporations. For HGs innovation is the only effective long-term mean of succeeding in competition (Simon, 2009, p. 355). While HGs value innovativeness as

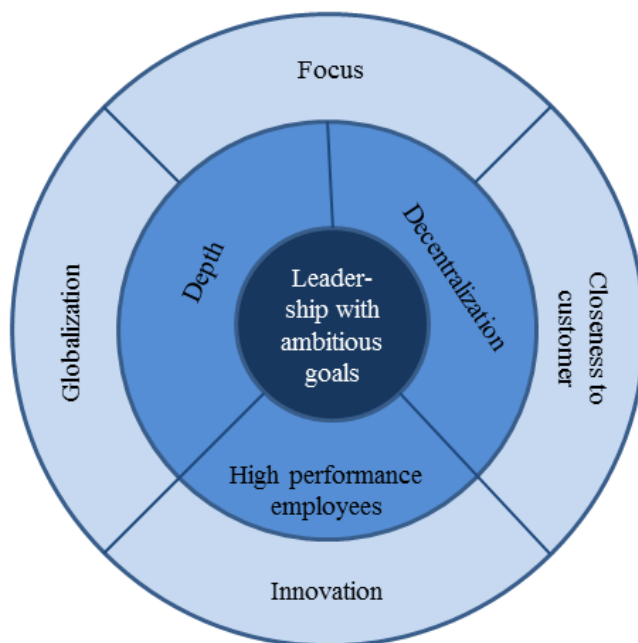
one of their major competitive advantages they are able to create unique products that differ from those offered by their competitors.

Closeness to Customer

For HGs customer orientation is more important than competitive orientation. They favor long relationships with their customers and witness this as their greatest strength, even over their technical competencies. This closeness to customer creates automatically competitive advantage, because HGs are constantly aware of their customers' needs and outbid their competitors in this sense (Simon, 2009, p. 356).

Simon illustrates the eight cornerstones of HGs distinctive strategies as follows:

Figure 1. *Eight lessons of Hidden Champions*



Source: *Simon, 2009, p.356*

As we can witness from figure 1 the “lessons” are related and linked to each other. In the center there is leadership directly linked into ambitious goals. In the second circle we can witness that leadership is aligned with high performance employees. This is associated to the inner flame of HG leaders, which then reflects to other employees as well. Other internal competencies in the middle circle are depth and decentralization. Depth is related into competitive superiority and “do yourself attitude”, which is formed internally. The other internal competency is decentralization, which is related to entrepreneurial behavior and high degree of autonomy among the executives. The two latter mentioned internal competencies are then enabled by high performing employees.

In the outer circle there are focus, globalization, innovation and closeness to customer. HGs are focused on narrow markets where they take benefit of their strong market presence and competitive advantage through continuous innovation. As experts in market presence HGs understand their customers better than competitors and are able to innovate according to the need of the customers. Finally the above-mentioned formation can then be taken outside domestic borders, which provides room for growth even the market is narrow (Simon, 2009, p. 356-357).

To conclude, HGs differ in many aspects from average companies. They succeed in doing what customers appreciate and rather than establishing complex strategic frameworks concentrates in mastering the basics of doing business. They are true specialists what comes to expertise and know-how, cost control, pricing, customer relations, innovativeness and internationalization. Moreover HGs are companies where employees are committed to work towards common goals with high ethics and moral. Simon (2009, p.359) continues that by following their strategic principles HGs can avoid many serious mistakes such as: short-term profit maximization, frequent change of strategy, diversification that leads farther from core business, risky financial activities and excessive leveraging, inefficient

acquisitions, inefficient outsourcing, disproportionate reliance on external manage and the list continues...

While this sub-chapter raised the most important distinctive characteristics of HGs strategy from Simon's perspective, the next chapter will analyze HGs from perspective of other theories and categorize the research in the field of growth strategy.

2.5 Theoretical background of the Hidden Champions strategy

As noted in the introduction chapter HGs are companies that operate in narrow markets. It could be argued that a narrow market in general terms does not offer much growth potential for companies. However HGs have managed to grow their operating revenues mostly by outstanding diversification from other companies and successful globalization strategies (Simon, 1996; 2009). By these strategies HGs have pursued to earn their steady market position. As follows the author will present the most influential theories concerning company diversification strategy as an enabler of growth. After that the scope will be turned into the specific theories of HGs. This will be useful in order to better understand the success of HGs and further explain the theory field into which this research belongs. We will begin by the most generic theories such as Ansoff's and Porter's. The first theory is Ansoff's Product/Market matrix, which is presented in figure 1.

Figure 2. Ansoff's Product/Market matrix

		Products	
		Present	New
Markets	Present	Market Penetration	Product Development
	New	Market Development	Diversification

Source: Ansoff, 1965

Ansoff's Product/Market matrix divides growth strategies into four categories: market penetration, market development, product development and diversification. Market penetration occurs when a company penetrates a market in which current or similar products exist. This can be effectively conducted by attracting competitors' customers. Market development refers to a situation where existing products are introduced into new markets, while product development refers to a situation in which a company is introducing new products to existing markets. Diversification on the other hand occurs when a company introduces new products for new markets (Ansoff, 1965). From Ansoff's growth theories diversification is closest to HGs. However, according to Simon (2009, p.79) HGs avoid "hard diversification" because bringing new products to new markets is relatively risky. Instead HGs support "soft diversification", which means that new products or services stay close to the traditional business in terms of technology and markets.

As Ansoff concentrated in his Product/Market matrix in explaining companies' growth strategies, Porter (1980) explained how a company has two main strengths through which it

can thrive for competitive advantage. These strengths are cost advantage and differentiation. Based on these strengths Porter introduced his generic strategies: cost leadership, differentiation and focus. The three generic strategies are presented in figure 2.

Figure 3. Porter's Three Generic Strategies

		Strategic advantage	
		Uniqueness Perceived by the Customer	Low Cost Position
Strategic target	Industry Wide	Differentiation	Overall cost leadership
	Particular Segment Only	Focus	

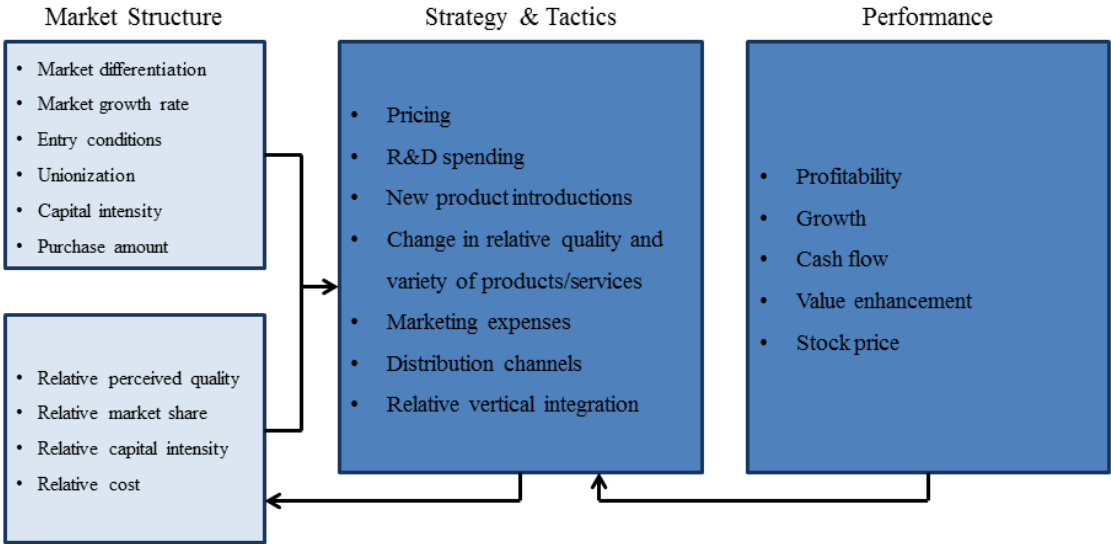
Source: Porter, 1980

In the light of three generic strategies HGs fall into the category of differentiation with distinct differences. HGs practice a combination of narrow target market and superior performance. HGs offer usually their products and services on higher prices than competitors, and overall cost leadership is rare among HGs (Simon, 2009, p. 208).

We have touched upon the similarities and differences of HGs growth strategy and Ansoff's and Porter's models. As it is, both Ansoff's and Porter's theories are quite simplistic and generic, but the two theories can be seen as groundwork in the field of business growth strategy. However for better understanding how a SME or a HG in a niche market can succeed and gain a strong market position, we need to take a closer look on

more suitable theoretical frameworks relating to HGs. We will benchmark into a couple of theories and theoretical frameworks. The first one is The Profit Impact of Market Strategy, which is also referred as The PIMS Competitive Strategy Paradigm. It was first initiated by General Electric in 1972 and demonstrates the correlation between market share and profit. PIMS informed managers that they could increase market share, and thus profit, by redefining their market scope (i.e redefining their competitors and presumably their market share position) (Buzell et al., 1987). PIMS framework is presented in figure 3.

Figure 4. The PIMS Competitive Strategy Paradigm



Source: Buzell et al., 1987.

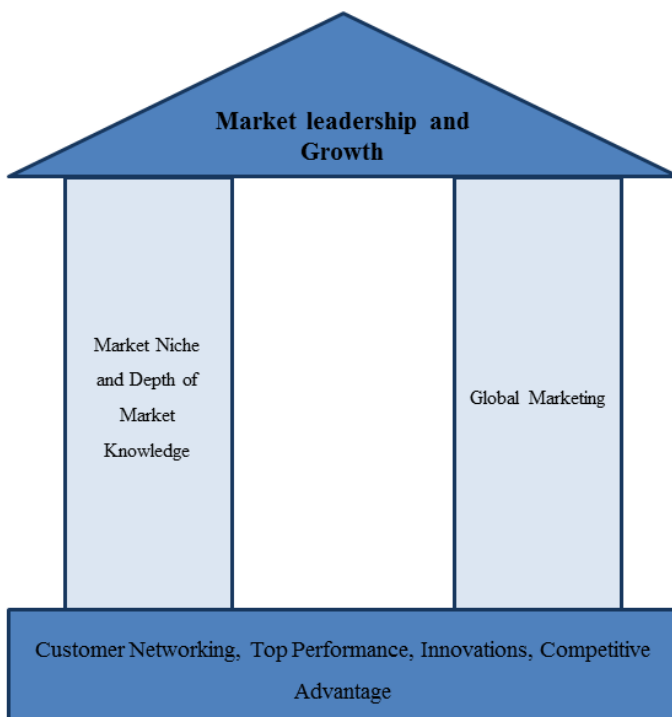
PIMS offers a more complex strategic framework for companies operating in niche markets. It divides market structure, strategy and tactics as well as performance into own categories and explain the linkage between the categories as we can witness. As Adam et

al. (2004) and Clifford et al. (1985) show, there are empirical evidences for the success of SMEs with diverse demand and cost curves. The both agree that market turbulence or creative destruction in global markets provides a lot of market niches for SMEs to conquer. Another framework relating to HGs distinctive strategy is experience curve by Boston Consulting Group (1970). The two dimensional experience curve (market growth and relative market share) propagates driving up the relative market share (Simon, 2009, p. 53). The curve illustrates that while experience in a company grows the unit cost of production decreases, which leads to ability to offer products and services on lower prices and finally to market dominance. However, as mentioned earlier, the price is not the success factor of HGs. They tend to offer products and services on higher prices, which make adaption of experience curve like alignment even more interesting from HGs perspective. The experience curve fits HGs strategy, since as revealed earlier in this study high-performing employees are one of the cornerstones of HGs success. Moreover when the relative market share is high, as in HGs situation, the unit cost is lower when compared to the competition and hence HGs may charge higher prices compared to their competitors (Simon, 2009, p.53). As revealed PIMS and experience curve are suitable frameworks in order to illustrate HGs strategy. In addition Schumpeter's and Chamberlin's theories describe well HGs distinctive strategy.

Joseph Schumpeter (1934) introduced the concept of temporary monopoly profit. The ideology is bound on the notion that by inventing new products "normal profit" is not enough for the founder. Schumpeter noted that a company is willing to invest in groundbreaking innovations in face of intense competition, and by doing so create new room for growth and "better profit". In addition Edward Chamberlin (1957) introduced product differentiation, which means that a supplier could charge a higher price for a certain products than perfect competition would allow. In other words Chamberlin states that it is possible to create products that are more attractive to buyers by making them different to those offered by the competitors and earn significant profits this way.

Simon & Jonason (2013 p. 163) offers a specific strategy model for market leadership concerning the HGs. According to Simon & Jonason (2013) market prices are the major market strategy element for HGs. Their pricing strategy relies on price rigidity and product differentiation as noted earlier in this chapter. HGs usually produce high quality products that are ranked top in the world. The model introduced by Simon & Jonason can be seen as a combination of Schumpeter's innovativeness and Chamberlin's competitiveness by product diversity (Lahti, 2014, p.159). The model is presented in figure 5.

Figure 5. *Hidden Champions Strategy's pillars*



Source: *Simon & Jonason, 2013, p.163*

As we can see the elements introduced in the previous chapter, which dealt with the eight distinctive characteristics of HGs (Simon, 2009) are illustrated also in the most recent strategy framework by Simon & Jonason (2013). As we can see market leadership and growth are the leading actions in the most recent illustration on HGs strategy. The pillars then are global marketing, market niche and depth of market knowledge. On the bottom we can see customer networking, top performance, innovations and competitive advantage. Regarding the second pillar and global marketing, it seems that even many of the Hidden Champions are born globals, some HGs follow the Uppsala model guidelines (Witt and Carr, 2013). This might be especially characteristics for Finnish companies, when considering the export orientation of Finnish manufacturing SMEs in overall. As it is we now understand that HGs growth strategies are different to those introduced by Ansoff and Porter, but they still have similar characteristics with them. Theories of Schumpeter on creative destruction and Chamberlin's product differentiation together form an explicit theoretical framework relating to HGs strategy.

As this research will be conducted on Finnish SMEs that operate in similar niche markets to HGs identified by Simon, it is relevant to take a look on the market orientation of the Finnish SME sector, and compare it with the orientation of HG identified by Simon. The Nordic niche-strategies framework by Lahti (2010) elaborates Finnish SMEs on the same line with HGs. Lahti's orientation is presented in Figure 6.

Figure 6. The Nordic niche-strategies

PRICE CATEGORIES	PRODUCT	COMPETITIVE ADVANTAGES
<p>TOP HIGH</p> <p>Differentiation advantage</p> <p>MID HIGH</p> <p>Stuck-in-the-middle</p>	HGs try to serve their global customers with high-quality products and service	HGs compete with customer-specific differentiation Emergent market theory for SMEs
<p>MID</p>	Finnish SMEs operate in stagnant domestic markets with commodities	No competitive edge since multinationals do the same in big and global scale
<p>MID LOW</p> <p>Cost advantage</p> <p>LOW LOW</p>	Products from low-cost nations such as China	Mass-customized products and modern production technologies

Source: Lahti, 2010

Figure 6 categorizes companies based on their price orientation. In the first category are HGs that offer high quality and differentiated products and services with high price. As noted earlier in the study HGs can charge high prices mainly because of their product differentiation, creative destruction and customer-specific differentiation. The bottom and third category consist of companies that offer products and services on low prices. They have a cost advantage and competitive advantage because of mass-customization and modern production technologies, which are naturally cheaper in low-cost countries. In the middle there are Finnish companies that do not necessarily have similar competitive advantages such HGs or companies that offer low-cost products and services. Finnish SMEs tend to operate in stagnant domestic markets (as mentioned in the introduction part

of the research) and suffer from the big multinationals dominant role. According to Lahti (2010) Finnish SME's are often stuck in the middle (Porter, 1980). Based on the figure 6, we can estimate that Finnish HGs might be difficult to identify – at least so that they would fulfill every criteria identified by Simon.

As we now understand the basic theoretical context into which we categorize HGs strategy, we will move on to learn more on the KPIs of HGs. The KPIs will then help us to compare HGs in terms of objective metrics.

2.5 KPIs of Hidden Champions

This sub-chapter is related to the KPIs of HGs. For identifying HGs and being able to compare them with other companies, it is necessary to well justify the KPIs that are taken into account for the research purposes. As noted before author's intention is not only in identifying HGs among EY EOY competitors, but also to compare how the chosen Finnish manufacturing HGs perform against their industry in general and against other HGs studied by Simon. The companies in the sample group are first compared with criteria determined by Simon and introduced in the sub-chapter 2.2. Finally the companies, which are best congruent with HG criteria, are extracted from the sample and compared to the other companies in the sample and HGs determined by Simon.

According to Simon (2009, p. 317-324) HGs can be compared to other companies with a several methods. Simon raises both objective and subjective methods. Objective methods are based on quantitative data, such as financial indicators. On the other hand subjective methods are based on qualitative data such as customer satisfaction. Simon suggests that comparison should be done between similar companies and industries. Comparing an engineering company and a pharmaceutical manufacturer would not give reliable results. Over his work Simon (2009) emphasizes a several aspects that make HGs different from traditional companies. Simon (2009, p. 321) offers a holistic list of the KPIs of HGs that

can be used for benchmarking and comparison purposes. As follows the author will represent the KPIs chosen for measuring performance in the context of this research. All the KPIs are those emphasized by Simon in his 2009 published book.

Financing from Hidden Champion's perspective

As mentioned HGs are often family-businesses with long-term goals. Simon (2009, p.224) states that HGs usually have higher equity ratios compared to other comparable companies, "average companies" as Simon notes. High equity ratio means that company's total equity is notably higher than its total assets. High equity ratio is the precondition for self-financing, which is the most important financing source for HGs (Simon, 2009, p.225). Solid equity ratio naturally leads to excellent credit ratings and correspondingly low capital costs. While HGs tend to rely on long-term and organic growth it is essential to have right resources available to support this growth. Hence, high shareholders equity compared to total assets leaves HGs more financial leeway for strategic investments. As Simon (2009, page. 225) states many SMEs view financing as the resource that limits growth, international expansion, establishment of a world-wide sales network, research and development, as well as investments in manufacturing facilities. Therefore lack of financial strength can become a decisive factor of strategy implementation and can leave growth aspirations without fulfillment. However, according to Simon HGs does not witness financing as a constraint on their strategies, since HGs possess the above-mentioned financial leeway for strategic investments. After exploring Simon's stance on HGs finance we will move on and see what existing theory and research tell us on SMEs and family-businesses financing.

As noted in the introduction of this thesis SMEs form an important part of the economy in Europe as well as in Finland. Thorsten Beck (2006) has studied SMEs access to finance as a growth constraint. Beck's research summarizes the recent empirical research, which shows that access to financing is a major growth constraint for SMEs. Beck suggests that

improving the overall business environment for all firms would be more beneficial than simply trying to promote a large SME sector. Beck's stance correlates well with the favorable business environment for both SMEs and large companies in Germany. As can be witnessed from Germany's and HGs' example it is possible to sustain an environment where both large companies and SMEs grow and flourish. Hyytinen and Toivanen (2005), as well as Hyytinen and Pajarinen (2005) have studied the role of external financing in Finland as an enabler for growth. Their research shows that companies that receive external funding are not only more growth-oriented, but also more R&D and quality intensive. However according to Simon (2009, p. 225) 70% of HGs do not regard financing as a constraint on their strategies at all. HGs clearly stand out from normal companies in this sense – HGs tend to grow by self-financing instead of relying on traditional bank loans, private equity or capital markets (Simon, 2009, p. 226). Simon notes that the focus of interest in the long-term perspective is not the cost of financing, but rather the strategic leeway of a company. HGs studied by Simon have on average an *equity ratio of 41,9%*, which shows that they really do have that financial leeway for strategic investments. To better illustrate why HGs rely on self-financing strategies it is necessary to look on the strategies of family businesses and related research and theory on the topic.

Previous research has shown differences between family businesses and non-family businesses especially in terms of financing. In general especially from SMEs perspective a number of different factors affect financing decisions including culture, entrepreneurial characteristics, entrepreneurs' prior experiences in capital structure, business goals, business life-cycle issues, preferred ownership structures, age and size of the firm as well as issues relating to independence and control etc. (Romano, et al. 2001). Romano, et al. (2001) also shows in their study that use of external capital is less likely a source of financing to family businesses in the manufacturing sector - a notion, which is in line with HGs financing strategy. As characteristic for a family-business they are long-term survival. De Geus (1997) has identified four main reasons for the long-term survival and one of these

is conservatism in financing. According to De Geus companies are living beings that must adapt, have moral dimensions, and have desire to survive to withstand the changes inherent in the environment. De Geus' orientation seems a bit symbolic, but when we start observing family-businesses and how strictly they often are attached to the owner the description seems valid. Gallo, et al. (2004) shows that the "value" of stock for family businesses is not only its price, but includes other considerations such as passing on a "tradition", offering job opportunities to family members, and staying in power for long periods of time. They also reveal that family-businesses choose policies that result in slower growth partially because of their risk aversion, which can be seen for example in low level of dept.

According to the theories raised here it is relevant to possess a question on family-businesses growth. If these businesses tend to be risk adverse, avoiding external financing as a resource for growth, and relying on equity financing and trusting in "tradition", how can HGs, mostly family-businesses grow as fast as Simon has shown? According to Simon (2009) the growth is related to the extremely ambitious visions and goals of the owners. McMahon and Stranger (1995) also stress the role of business owners' own plans as a growth accelerator. For more Finnish insight on the topic, the author interviewed Philip Aminoff (2014) who is currently Chairman of the Board at Helvar Merca Oy and linked to other Finnish HGs such as Fastems Oy. Naturally Aminoff is aware on the financing strategies of HGs and arguably one of the most experienced Finnish business influencer on this field. Aminoff states that since most of the family-owned businesses have infinite "owning horizon" the only clever way to finance family-business is self-financing. Aminoff notes that even the goal is to grow and create sustainable business; the future of the company must be secured - financing cannot be built on dept, and growth cannot be uncontrolled. Hence, it is important to have a certain patience and understanding that growth is not the only purpose of doing business for family-businesses. By looking at the growth strategies of family businesses we can argue that they are growing in a rather steady

but sustainable manner. Robert Higgins (1977) introduces the concept of sustainable growth rate, which seems to be in balance with family-businesses as well as HGs growth aspirations (Simon, 2009, p. 55; pp. 203-205); even growth and market leadership are the dominant aspiration for HGs.

In author's opinion it is clear that continuity itself is a source of competitive advantage for both family-businesses and HGs. High equity ratio can be seen also as an indicator of sustainable growth and continuity and for this reason plays an important role in order to evaluate HGs strategies and performance indicators. Moreover according to the theoretical content presented in this sub-chapter the author can draw the conclusion that own equity financing is a source to ensure long-term existence of a company. High equity ratios of HGs can be seen as a sign of this long-term existence and orientation. It is necessary to note that the direction of the company is strictly related to owner's own ambitions and goals. As Simon (2009, p. 29) notes many HG owners have an "inner flame". They want to succeed, grow their business and become market leaders. Still the owners have a sort of patience avoiding "unhealthy growth" and short-term profit maximization. From the theoretical discussion in this section, we can form our first hypothesis:

H1: Identified Finnish HGs have higher equity ratio compared to non-HGs.

Profitability from Hidden Champions' perspective

Simon (2009, p. 20) shows that the studied HGs had an average ROI of 9,5% in 2008 and compares the ROI to Fortune 500 companies average ROI, which was at the time 3,5%. In these circumstances it is clear that HGs have high ROI in average compared to the biggest companies in world. Simon (2009, p. 226) also shows that average *return on capital employed* (here after referred as ROCE) for HGs is 13,6%. In manufacturing industry a company usually requires great investments of money into machinery itself and therefore HGs ability to turn these investments into profit is convincing. ROCE as a financial

measurement and its role as an indicator of profitability is explained more detailed in chapter 3 (see figure 2).

Simon (2009, pp. 52-55) mostly discuss profitability in the light of market share. Simon states that the presumption that large market share automatically leads to higher profitability is the biggest management misunderstandings of our time. In his first book on Hidden Champions Simon (1996) did not find any link between market share and return on equity. One of the most important messages of Simon's book (2009) – at least from author's opinion is the notion that market share can be divided into two categories “good” or “bad”. While good market share is often deserved with innovation, superior performance and excellent service, bad market share is earned for example through short-term price reductions that ruin the whole market. Simon stressed that earned margin is actually the factor determining whether a market share is “good” or “bad. To illustrate good and bad market share Simon raises two example categories (situation in 2009): IKEA, Wal-Mart and Southwest Airlines are companies that offer low prices, but still earn excellent profits because their costs are extremely low and margins high. On the other hand Sony, Ford and General Motors, even their dominant position in the market, are failing to earn money. These companies are in aggressive price war, which prevent them from earning sufficient margins and increases their operating costs. Usually HGs doesn't suit in neither of the categories above. Instead HGs earn their dominant position in the market through superior performance, technology, innovation, quality and reputation, and these attributes allows them to retain higher prices on their products. Therefore – coming back to the most interesting message of the book – HGs in spite of being market leaders can usually charge the highest prices. The author does not see it necessary to immerse more deeply into competition in this regard because the focus of this sub-chapter is in profitability. However profitability and competitive advantage relate to each other as shown in Simon's example on “good” and “bad” market share. The most significant notion regarding to the competition that HGs face is that they predominantly operate in oligopoly markets and face

only a limited amount of competitors. To conclude - if the profit margin is in the center of good market share and HGs represent good market share it is natural that HGs have high ROCE. Hence high return on capital employed is a valid performance metrics for HGs and we can form the second hypothesis:

H2: Identified Finnish HGs have higher return on capital employed compared to non-HGs.

Productivity from Hidden Champions' perspective

Simon emphasized the role of productivity as one of the main strengths of HGs. The principle of having “slightly more work than people” is mentioned as a part of HGs corporate culture. In accordance with this corporate culture revenue might grow even the amount of workforce remains the same. Simon stresses that revenue growth divided by employee growth is a strong indicator of productivity and efficiency (Simon, 2009, p. 42). He states that HGs have usually significantly good revenue per employee rate and that the ratio has grown during the time he has examined HGs.

Kaplan & Norton (1998) has shown that revenue per employee measures the outcomes of employee commitment and training programs. Moreover Ponikvar et al. (2009) have studied the relation between growth and average revenue per employee. Their research indicates that faster-growing firms can be expected to earn higher average revenues per employee in general. We can also note that in a comparative study on East and West German companies during 1993-2003, by Kirbach and Schmiedeberg (2008), the revenue per employee differed a lot. Companies in West Germany, which were more profitable, had significantly higher revenue per employee figures. In addition the authors' showed that the phenomenon had a significant effect to the probability to export. On the light of the four observations raised in this section, it is justified to believe that *revenue per employee* has a relation to productivity and can be seen as an effective metrics in order to measure productivity. Hence, the third hypothesis of the research is:

H3: Identified Finnish HGs have higher revenue per employee ratios compared to non-HGs.

Innovation from Hidden Champions' perspective

In addition to financial indicators Simon (2009, p. 321) raises a variety of different non-financial objective performance metrics that are descriptive for HGs. As noted earlier in this research innovation is one of the cornerstones of HGs strategy. Simon stresses innovation indicators such as R&D intensity and number of patents (Simon, 2009, p. 165, 167). According to Simon (2009, p. 159) HGs demonstrate tremendous innovation drive in process, systems, marketing and services. He continues that R&D intensity, number of patents, and revenues coming from new products prove that HGs are extremely innovative and successful in their innovation aspirations. Simon also stresses the role of innovations in HGs pursuit to gain market share. In authors study the main source of observation is in patents, mainly because of the convenience of receiving data on companies' patents. Share of R&D from revenue has probably been a better indicator, but data on companies' R&D expenditure was difficult to identify.

Even invention and innovation are two different aspects the author believes, as does Simon, that there is a strong link between inventions (patents in this context) and company overall innovativeness. The aim of this sub-chapter then is to explain the role of patents in company operations as a mean of innovation, performance and competitive advantage.

Before taking patents under observation it is necessary to familiarize with the innovation process of HGs. Lahti (2014, p.168) has noted that HGs' customers are dependent on their products and they cannot easily change their suppliers, meaning a high co-dependence between HGs and their customers. Lahti (2014, p.168) continues that HGs have developed their main products as a result of customer-based innovations and, that is the reason why they are able to keep their leading positions in narrow niches. In a generalizing level technology management can be found at the heart of all firms Narayanan (2001). While

manufacturing companies are product intensive, management of technology in order to manufacture products that meet the demand or creates new demand becomes more and more important. One way to manage or at least enable a certain guarantee, for example block competition around new innovations, is patenting. However patenting is a bit ambivalent phenomenon. On the other hand it provides the guarantee mentioned, but on the other hand patenting might be extremely resource consuming. Mazzoleni and Nelson (1998) notes that today's conventional wisdom is heavily weighted toward the proposition that strong and broad patent rights are conducive to economic process. They suggest four different theories about the purposes of patents which are:

1. The anticipation of patents that provides motivation for useful invention
2. Opportunity to commercialization and monetary benefit
3. Individual incentive for the inventor
4. Patents enable the exploration of a broader prospect

On the other hand Mazzoleni and Nelson (1998) highlights that strong and broad patent should not be granted lightly and therefore the initial price for patenting should be high. They continue that the cost of a granted patent for the society is that other companies are not able to innovate around the same innovation even they would have resources and willingness to do that. Therefore it is justified to consider the real benefits and costs of patenting for the whole society. Does patenting always take the development further or does it hinder the development in some circumstances? Also Simon (2009, p. 166) emphasizes the ambivalent role of patenting. Many of the companies researched by Simon were rather skeptical towards patenting and the major reason for this was the speed of the process. According to Simon (2009, p. 166) average waiting period for a patent decision is 2,2 in Germany and 2,6 years in US. In Finland the corresponding waiting period is 2 to 2,5 years (Finnish Patent and Registration Office, 2014). Another interesting notion that does

not necessary speak on behalf of the patents is their economic value and the measuring of this economic value. Even Mazzoleni and Nelson offers reasons behind the economic value of patents, their opinion does not completely differ from Simon's statement (2009, p. 169) that patents measure the technical outcome of innovation endeavors, but not their economic success. Lahti (2007, pp.92-93) raises the concept of patent paradox. Lahti notes that majority of patents have no value, and the values are difficult to determine. Lahti continues that the real value of patents lies not in the individual significance, but rather in their aggregation into a patent portfolio.

From the discussed observations of the above-mentioned authors' we can note that amount of patents as an indicator of company's innovativeness might be a bit misleading. However since this research is completed based on Simon's research on HGs the author will give credit to Simon and believe that patents are actually measurement of technical outcome rather than economic success. Moreover it is necessary to remember that HGs are often single-product manufacturers. Therefore it is natural to expect that for HGs who have patents the total amount of patent applications is lesser compared to companies with a wider product-line or high-tech intensive business. A famous example of this was Nokia's patent portfolio, which played a large role on company's success story and was arguably the most valuable part of the company at least in some point. Finally, taking into account the innovation orientation of HGs and the fact that majority of HGs are manufacturing companies it is interesting to explore how Finnish HGs orientate to the issue. The fourth hypothesis then is:

H4: Identified Finnish HGs have more patents per thousand employees compared to non-HGs.

Internationalization from Hidden Champions' perspective

The fifth success indicator that defines HGs performance in the light of this study is linked to *internationalization*. As noted earlier in this study HGs are actively seeking for new

markets to fasten their growth. In narrow markets in some point it is impossible to grow locally so HGs are required to choose cross-border business. As Barringer and Greening (1998) shows geographic expansion is one of the most important paths for firm growth, particularly for companies whose business scope has been geographically confined. Zahra et al. (2000) continues that SMEs are most likely to choose geographic expansion strategy to pursue new opportunities to leverage core competences across a broader range of markets. The statements of the above-mentioned authors are extremely valid also from HGs perspectives as we will see in this chapter; however HGs internationalization strategy differs a lot from a usual SME in one significant aspect. As a vital part of their strategy HGs tend to establish foreign subsidiaries, which mean in HG context that they favor going alone in foreign markets (Simon, 2009, p. 92). Therefore it is interesting to study *how many foreign subsidiaries* Finnish HGs have in comparison to other Finnish manufacturing companies of the sample (Simon, 2009, p. 98-99). The internationalization strategy is aligned early in the overall strategy of HGs. As Simon notes and Lahti (2014, p.168), who has completed extensive theoretical research on HGs agrees, HGs' business recipe is working well in international markets since they invest heavily in internationalization early in their growth paths. From these premises the author will form the last and fifth hypothesis of the research:

H5: Identified Finnish HGs have more foreign subsidiaries compared to non-HGs.

Conclusion of the chapter

In this chapter the author introduced the background, characteristics and Simon's selection criteria for HGs. Moreover the author introduced five KPIs, relevant in the context of HGs and this research. Descriptively these success factors are: financing, profitability, productivity, innovation and internationalization. Equity ratio is the measurement for analyzing financing methods, while return on capital employed determines profitability. Employee growth versus revenue growth is the metric that defines company productivity.

Innovation is measured with amount of patents per thousand employee, and internationalization with amount of foreign subsidiaries.

In order to identify HGs on basis of the chosen BPM it is necessary to explore existing theory and practice on BPM and BPM systems in general. The knowledge collected in this chapter will form the theoretical framework of this research at the end of chapter 3 together with the knowledge acquired in the following chapter.

3. BUSINESS PERFORMANCE MEASUREMENT

The purpose of this chapter is to emphasize on BPM and BPM systems, and to analyze how individual companies and their decision-makers can measure business performance. The chapter introduces the most relevant theory and trends relating to BPM and BPM systems in the context of author's study. The goals is also to provide knowledge regarding BPM in general and to understand why it is necessary to measure business performance and what are the most admired theories and frameworks in the field.

The first section of the chapter will focus on characteristics, attributes, reasons and sources of BPM, while the second section explores the existing theory of BPM from past to the current state. The third section of the chapter then emphasizes the selection criteria of EY EOY competition in the light of existing theory. The last chapter operates as a summary of the literature review and introduces the theoretical framework of the Master's thesis.

3.1 BPM characteristics, attributes, reasons and sources

Franco-Santos et al. (2007) point out that BPM is often used on a various purposes without explaining exactly what is meant in specific occasions. They have conducted a study that explores the utilized definitions and purposes of BPM from various researchers' perspective. The most popular definition and purpose is "surprisingly" performance measuring. Their research also shows that BPM should be linked to strategy implementation and execution, should include clear objectives and goals, and should provide information to right stakeholders. Simons (2000) states that BPM and control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities. A typical BPM helps businesses in periodically setting business goals and then providing feedback to managers on progress towards those goals (Kellen, 2003). Simons (2000) continues that a measure is a

quantitative value that can be used for purpose of comparison. While Kellen (2003) adds that a specific measure can be compared to itself over time, compared with a preset target or evaluated along with other measures. Simons (2000) also notes that objective measures can be measured and verified, while subjective measurements cannot, and adds that objective measures are often classified as financial and non-financial. Kellen (2003) lists different attributes that can be useful in examining, selecting, designing and using measurements. The author considers the attributes as useful in order to understand better how company performance can be examined and what attributes should be emphasized case by case. The attributes are presented in table 2.

Table 2. Performance metrics attributes

Attribute	Opposite
Objective	Subjective
Financial	Non-financial
Lagging	Leading
Complete	Incomplete
Responsive	Non-responsive
Critical	Non-critical
Tangible	Intangible

Source: Source: Author, based on Kellen, (2003)

Objective metric is one that involves an impartial measurement while subjective measurements are those that take into account personal judgment. Objective financial measurements are indicators that companies present in their financial statements and balance sheets such as revenue, profit before tax, return on capital employed and equity

ratio. Lagging measures are related to past performance, as company's revenue growth from 2007 to 2013, and leading measures are looking towards future, for example estimating company's future value or success. In this study all the metrics are lagging measurements. Moreover measures are either complete or incomplete. Complete measures capture all the relevant attributes, while incomplete doesn't. If companies' revenue growth is the measured factor and there is a lack for one year figure, then the metric is incomplete. Responsive measures are those that can be affected by individuals, and non-responsive are those that can't, such as consumer confidence. Critical attributes are those that are also called key performance indicators, meaning that certain measures are directly related to firm's strategy and are critical in terms of successful execution of that strategy. Lastly, measures can also refer to tangible aspects, such as employee headcount, or intangible such as level of skill or knowledge (Kellen, 2003).

The purpose of presenting the characteristics and different attributes is to strengthen knowledge on the different metrics and to clarify the purpose of their use. After understanding the attributes it is necessary to understand the reasons why company performance is and should be measured.

Bititci et al. (2002) raise five major reasons why complementary BPM is vital:

1. To monitor and control
2. To drive improvement
3. To maximize the effectiveness of the improvement effort
4. To achieve alignment with organizational goals and objectives
5. To reward and to discipline

Simons (2000) also raises five points from a slightly different balancing perspective:

1. Balancing profit, growth and control

2. Balancing short term results against long-term capabilities and growth opportunities
3. Balancing performance expectations of different constituencies
4. Balancing opportunities and attention
5. Balancing the motives of human behavior

In addition Hudson et al. (2001) presents a holistic proposal on the critical characteristics of performance metrics. Their alignment is presented in the table 3. In author's opinion table 3 aligns well the different sources that can and should be measured and provides an overall image on KPIs in a general level.

Table 3. *Critical attributes of performance measures*

Quality	Time	Flexibility	Finance	Customer satisfaction	Human resources
Product performance	Lead time	Manufacturing effectiveness	Cash flow	Market share	Employee relationships
Delivery reliability	Delivery reliability	Resource utilisation	Market share	Service	Employee involvement
Waste	Process throughput time	Volume flexibility	Overhead cost reduction	Image	Workforce
Dependability	Process time	New products introduction	Inventory performance	Intergration with customers	Employee skills
Innovation	Productivity	Computer systems	Cost control	Competitiveness	Learning
	Cycle time	Future growth	Sales	Innovation	Labour efficiency
	Delivery speed	Product innovation	Profitability	Delivery reliability	Quality of work life
	Labour efficiency		Efficiency		Resource utilisation
	Resource utilisation		Products cost reduction		Productivity

Source: Hudson et al. 2001

Table 3 highlights the different sources that can be measured. In this case it is necessary to divide the table in two parts. On the top we can see the “ultimate” source of success measure such as quality, time, flexibility, finance, customer satisfaction and human resources. These “ultimate” sources can also be seen as KPIs. Above the “ultimate” sources we can then witness the different narrower sources that have characteristics of measurement tools. In author’s research the so-called ultimate source will be analyzed with the metrics that were defined in chapter 2. In the table we can also spot three direct success measurements for HGs: innovation, productivity and profitability.

From the existing theories chosen to this specific research we can form a picture on the different requirement of performance metrics. The knowledge collected in the sub-chapter will be utilized at the end of this chapter in the figure that illustrates the theoretical framework of this study.

3.2 Background and current state of business performance measurement

This sub-chapter aims to provide knowledge on the past and current trends of BPM and BPM systems. At this point it is relevant to notice that the aim of this sub-chapter is not to provide a holistic image on BPM and BPM systems. Instead the purpose is to offer knowledge on the current trends and most admired theories on the subject relating to authors research, and seek to find whether existing theorists and researchers are satisfied with the existing trends. As a starter it is relevant to draw a line between financial and non-financial performance metrics. As we will see in this chapter there has been a significant transition during the last 30 years in the field of BPM and BPM systems.

Measuring business performance has naturally been an intriguing subject for companies over time. The BPM field was mostly dominated by unilateral, often financial indicators to

the 1980's (Neely, 2002 and 2005; Yenyurt, 2003). More developed and modern businesses needed more sophisticated methods for analyzing their performance, instead of relying only on the one-sided indicators (such as financial indicators). Before addressing the non-financial metrics it is still relevant to stress the role of financial measurements.

Financial measurements

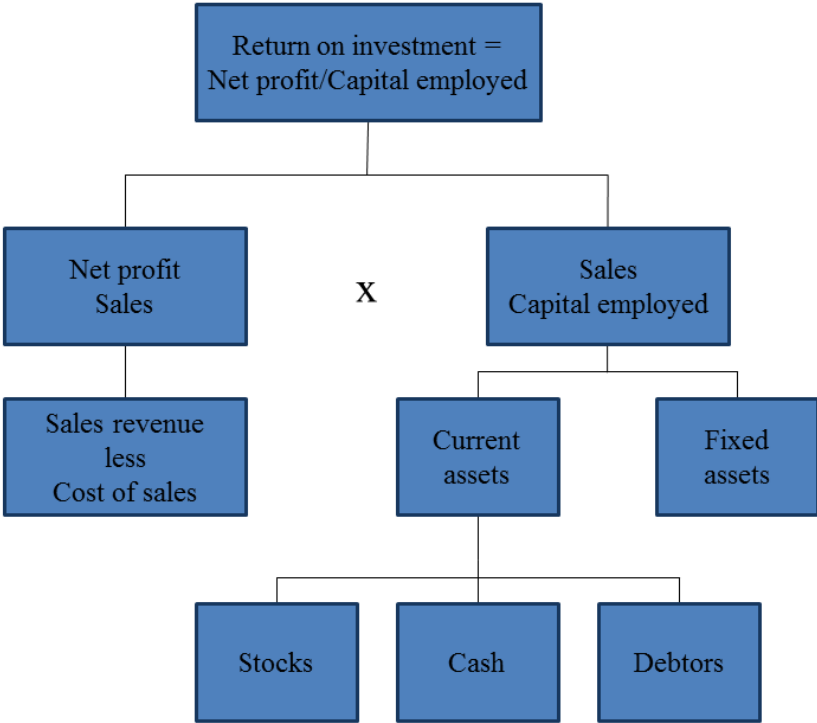
Financial indicators are in an important role in helping companies to achieve and measure their performance. Financial statements are based on accounting data and can provide valuable insights about the vitality and value of a company (Schönbohm, 2013). Accounting can tell to various different stakeholder groups' beneficial information on company's past and current situation. Financial ratios save time and effort since they simply complex sets of data. For example when looking at a company's most recent operating revenue, profit margin, return on capital employed or equity ratio it is easy to state that the company has either performed well or poorly in the past. It is hard to state that a company has completely failed if its revenues and profit curves are upward-sloping for example during the last five years. David Otley (2002) divides financial measurements into three categories:

- 1) *Financial measurement of performance as tools of financial management*
- 2) *Financial performance as a major objective of a business organization*
- 3) *Financial measures of performance as mechanisms for motivation and control within organization*

Financial planning consists of three main areas. Cash flow planning is required to ensure that the cash is available to meet financial obligations of the organization. The second area of focus is profitability, while the third are of focus is assets and the provision of finance for their purchase. All the above-mentioned areas are completed in order to ensure the effectiveness and efficient use of financial resources (Otley, 2002). Otley states that financial management focuses on both the acquisition of financial resources as well as the

utilization of the assets that those financial resources have been used for. According to Otley the single most powerful tool of reporting on these matters is pyramid of ratios presented in the figure 2.

Figure 7. Outline pyramid of accounting ratios



Source: Otley, 2002

In the pyramid we can witness that return of capital employed is on the apex. ROCE is then divided into two sections: profit margin on sales and the capital turnover – its actors. Pyramid of accounting ratios provides good ground for author’s decision, based on Simon’s arguments, to measure company profitability by return of capital employed in this study.

The second major role of accounting performance measures is related to financial objectives of the business. The actual purpose in this concern is to meet the needs of external supplier of capital, both debt and equity. External suppliers may relate to shareholders, bankers and other providers of debt capital. While majority of the HGs are family-businesses or other privately owned businesses the shareholders for whom the created value is generated are usually inside the company. Therefore for HGs the company survival is an important measure of success, instead of providing value for external shareholders. According to Simon HGs also tend to be satisfied regarding this aspect (Simon, 2009, p. 22).

The third major function of accounting performance measurement is the motivation and control of managers. In this context the financial indicators have a role in analyzing the activities that have been made. In this regard Otley remarks and agrees that financial indicators are often insufficient measures since all the business goals cannot be measured by objective measures that analyze outcomes of past. Otley raises alternative approaches, such as balanced scorecard for this purpose. To conclude, financial ratios are useful, but if looking only to them and to the past, a company cannot determine its future efficiently and a lack of efficient BPM is visible.

Balanced approach

In his publication on evolution of BPM and BPM systems Neely (2005) refers to authors such as Ridway, Argyris and Drucker, who were all interested on different ways to measure business performance already in the 1950's. Especially Peter Drucker was intended to find a measurement tool that would put different measurement indicators in balance. However the basic principles of accounting, first developed by the DuPont cousins and Donaldson Brown in the 1920's, were still the major indicators of BPM (Neely, 2005). In the 1990's the general opinion was that a balanced method, which would mix different objective and

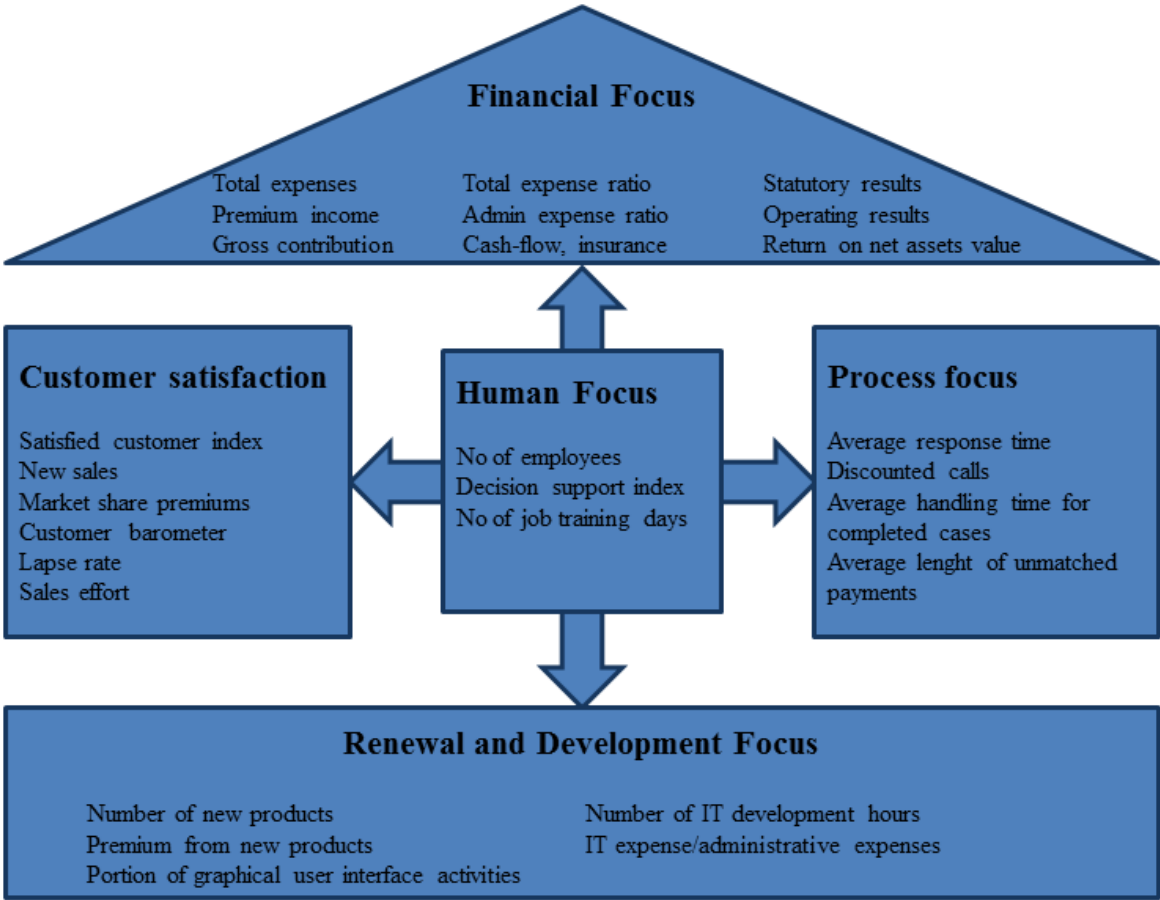
subjective metrics was needed in order to effectively measure company performance (Neely, 2005).

From author's opinion, after examining the existing theories published before the 1990's, Robert Eccles was the first who really brought the concept of more modern BPM in front of larger audience. Eccles published the article "Performance Measurement Manifesto" in Harvard Business Review (1991). The publication did not illustrate any fancy framework. Instead Eccles came up with three important claims. He pointed out, that companies need to value financial and non-financial metrics as equal measurement sources. Eccles even stated that quality, customer satisfaction and innovation metrics often reflect a company's economic condition and growth prospects better than reported earnings do. Moreover Eccles stressed that the chosen performance metrics need to be in balance with company's existing strategy and goals. It is unnecessary to hold annual revenue growth as a yard stick of success if company's goals at a certain point are not related to growth. Eccles' notions actually stems quite good with Simon's observations and his explanation that different companies can and should be measured by different strategy specific metrics. Since HGs strategy is bound around long term goals and new investments are made mostly on self-financing basis, high equity ratio is naturally a good metrics in order to analyze whether a company is operating as an HG. Hence, equity ratio can be seen as a HGs performance measurement.

When looking at BPM frameworks and tools published before 1990's they all look quite complex and difficult to implement in practice, which according to Neely (2005) was a major problem for decision makers. The frameworks were mostly too complex and generalizing for effective BPM. Decision makers and business owners wanted to understand, how such balanced theoretical frameworks could be turned into practice in real business. Yenyurt (2003) also stresses the prevailing situation in the 1990's. He argues that there have been two major alignments in the field. The other, such as Economic Value

Added (end of 1980s), is aiming to better adjustment of financial metrics in a way that they have more explanatory power. The other prevailing alignment is the balanced measurements such as Balanced Scorecard (1992) and Skandia navigator. Skandia navigator was invented by a company called Skandia and is presented below in figure 3.

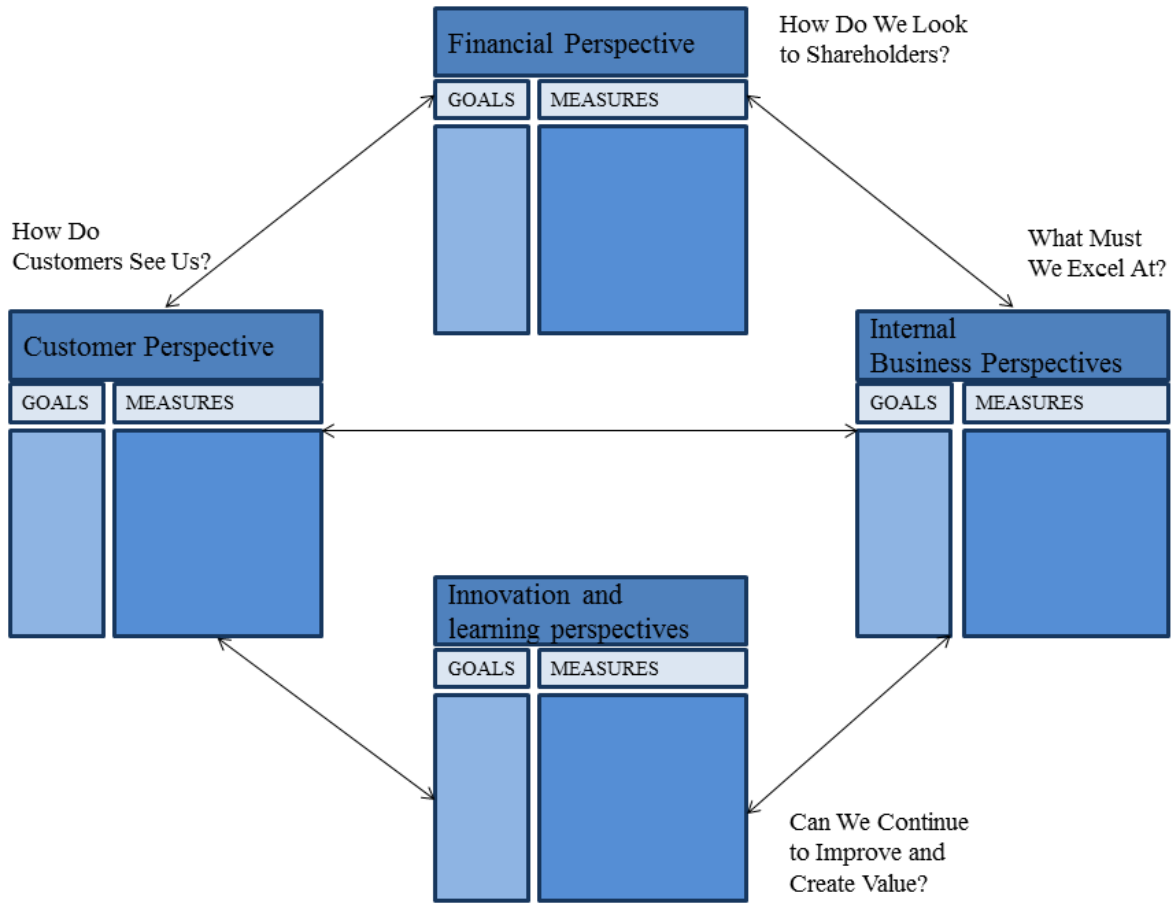
Figure 8. Skandia Navigator



Source: Marr et al., 2004

Skandia navigator draws a line between financial capital and intellectual capital. The latter operates as an important determinant of company's intangible assets such as customer satisfaction. Financial capital is presented on the top of the figure. According to Marr et al. (2004) Skandia approach is very similar to balanced scorecard, but offers a new dimension related to human resources, which is neglected by inventors of balanced scorecard. Marr et al. (2004) continues that even Skandia navigator introduces intellectual capital as a new dimension; its main problem is that it was invented for one company purpose and therefore it is challenging to use it in a generalized purpose and manner. They continue that all the measures are expressed in monetary terms and it is questionable that one can express knowledge assets in monetary terms. Moreover the framework does not solve in a sufficient manner how the five perspectives are related to each other. In overall Marr et al. considers balanced scorecard as a better framework for analyzing company's business performance to Skandia navigator. Kaplan and Norton's original Balanced Scorecard form 1992 is presented in figure 4.

Figure 9. The Balanced Scorecard Links Performance Measures



Source: Kaplan and Norton, 1992

Balance Scorecard is probably the most famous, utilized and influential framework concerning modern BPM systems. In a study by Taticchi et al. (2010) conducted in order to solve the most cites works in the field of BPM was revealed that Kaplan & Norton were mentioned in 35% of all the publications. Alone in this light we can state that Kaplan & Norton’s work is significant. Kaplan and Norton published a four-folded balanced method for BPM consisting of financial perspective, internal business perspective, innovation and

learning perspective as well as customer perspective. All the four perspectives are divided into goals and measures, i.e. balanced scorecard complements financial measures with operational ones. According to Kaplan and Norton (1992) the benefits of balanced scorecard are various. By dividing the measurements into just four categories it simplifies the process and minimizes information overload. It also brings closer measures that otherwise are quite far away from other and publish company goals and their measures in a clear way for everyone in the organization. The author believes that balanced scorecard is known by business owners, managers and directors all over the world. However the question is does balanced scorecard or any BPM system or tool provide holistic aid and advice for decision-makers in real life? Is even the most admired tool for business performance too generic and inflexible to provide efficient basis for BPM? In author's opinion, when measuring performance of a specific company the process should be completed from the perspective of the measured company itself. As noted in the introduction part of the thesis, most of the literature and research in modern management is conducted for large companies. Therefore a strong belief that existing BPM models are more suitable for large companies than SMEs exists. In these circumstances it is relevant, especially from the point of view of this research, to explore what existing theory states on BPM from SMEs perspective.

Business performance measurement from an average SMEs perspective

In this regard the difference between strategy formulation and strategy implementation is relevant. Gimbert et al. (2010) notes that large companies strategy formulation usually forms through formal strategic planning systems. They also emphasize the process as a result that emerges from a complex, multi-level process of organizational decision-making. The important notion in this regard is that strategy is usually formulated from both; deliberate strategic planning by top management and from day-to-day decision-making, which takes place in instances and need immediate reactions. Arifeen et al. (2014) in turn

stresses the absence of unified BPM systems. Even companies have realized that BPM systems need to be aligned with company strategy, the utilized systems seems to be scattered rather than summative. Moreover Taticchi et al. (2010) note, that most of the current theories and literature are conducted to underline the strategies and orientation of large companies. Naturally when things get bigger more sophisticated and diverse strategies are needed. This also means that more sophisticated and diverse performance systems are needed to analyze business performance. If decision makers of large companies find it hard to harness the existing performance systems for their use, what is the situation among SMEs? An argument that SMEs usually are more agile than large companies is justified in this sense. In the context of this research it is interesting to investigate what existing theory states about SME BPM systems.

Taticchi et al. (2010) have studied the different models and frameworks that analyze company performance from both large companies' and SME's perspective. They state that the first researches related to SME BPM systems appeared just in the half of 1990's. After that, in the 2000s, BPM research of SMEs has taken two directions. The first follows the models developed for large companies, while the second direction is development of specific models for SMEs. To better understand the BPM needs of SMEs we need to take explore what existing research states of SMEs characteristics. Also considering the uniqueness of HGs it is interesting to explore how much does the BPM of an average SME differ from those of HGs. As noted by Garengo et al. (2005) SMEs usually operate in highly competitive, turbulent and uncertain markets. Hudson (2001) also states that SME's rarely have a control over the market and therefore need to adopt reactive approach to market changes. This was the case for example in Nokia's and SMEs relation in Finland during Nokia's golden times. Usually SMEs have a limited customer base and therefore it is vital to stay as close to the customer as possible (Hong and Jeong, 2006). This can be seen actually one of the advantages of SMEs, and the notion is also in line with HGs orientation. Existing literature emphasize also the scarcity of resource that SMEs usually

encounter (Singh et al. 2008). This scarcity is visible for example in terms of financing. Astonishingly we can notice that HGs take another stance and are not suffering from scarce resources as Simon (2009) states. On the upside this scarcity has also positive effects. It enables more flexible and agile operations, and ability to response quickly in fast-pacing environments (Garengo et al. 2005). The linkage between average SMEs and HGs here is clearly visible, while both are capable of innovate and satisfy customers in this sense. While Simon stresses that HGs usually have high hierarchy, he also emphasizes that this hierarchy is flat in terms of every-day business – again a remark that unite HGs and average SMEs (Singh et al. 2008). Simon’s notions on strong leaders that are committed to their businesses are apparent also in average SMEs (Hudson et al. 2001).

As we have discovered in this short literature review on average SMEs characteristics, there are a lot of similarities among average SMEs and HGs. However the most significant notion is that the differences are also substantial. Despite the differences the author believes that the characteristics of BPM systems that are tailored for average SMEs are more suitable for HGs than those of large corporations corresponding. Cocca et al. (2010), have a formed holistic framework that handles the most important characteristics of “good” BPM system for SMEs. The framework is presented in table 4.

Table 4. BPM and BPM system requirements for a SME company

Performance measures	PMS as a whole	Performance measurement process
Derived from strategy	All stakeholders considered	Periodic evaluation existing OMS
Link operations to strategic goals	Flexible, rapidly changeable and maintainable	Strategy development
Simple to understand and use	Balanced (internal/external), etc.	Long -and short-term planning
Clearly defined/explicit purpose	Synthetic	Information sharing and communication
Stimulate continuous improvement	Easy to implement, use and run	Manager's commitment
Relevant and easy to maintain	Causal relationships shown	Employee involvement/support
Easy to collect	Strategically aligned	Facilitator
Provide fast, accurate feedback	Graphically and visually effective	Maintenance procedure
Monitoring past performance	Incrementally improvable	Systematic targets setting
Planning future performance	Linked to rewarding system	Roles assignment and responsibilities sharing
Promote integration	Integrated with IS	Performance revision procedure
Defined formula and source of data		Linking performance to compensation process
		Procedures clearly defined
		IT infrastructure support

Source: Cocca et al. 2010

In the table 4 we can see relatively specific requirements for SMEs BPM and BPM systems. From the table the author is willing to raise a several important aspects that will be utilized in formulation of the theoretical framework of the research. Cocca et al. (2010) reveals that BPM systems should be derived from strategy, a notion which was mentioned earlier in this chapter. Moreover the measures should be planning future performance but also monitoring actively past performance. In these circumstances we can argue that framework which will be conducted in the last sub-chapter of the chapter will included at least these aspects.

As concluding remarks for this sub-chapter we can note that BPM and implementation of BPM requires always careful attention. It is extremely important to know what is measured and how. As vital is to understand that financial measurements rarely offer enough information for efficient performance measuring. A balanced method underpins better the

needs of companies, large or small. However a static framework is too generalizing in order to function as such. BPM and BPM systems need to be aligning with company's overall strategy, goals and objectives. A level of flexibility and ability to adapt changes in time is needed. It is necessary to remember that BPM systems should be evaluated, created and implemented in company or at least industry specific terms. While the conversation in this chapter has aroused around measuring performance of a company and on efficient methods for the purpose, we have not touched upon the benchmarking to other companies. Therefore the next section will concentrate in benchmarking.

Benchmarking

According to Kyrö (2004) benchmarking has established its position as a tool to improve organizations' performance and competitiveness in business life. Benchmarking in its original form is utilized for evaluating and applying best practices that provides possibilities to improve the quality (Kulmala, 1999). According to Bhutta and Huq (1999, p.255) benchmarking is the best tool for improvement, which achieved through comparison with other organizations recognized as the best within the area. Bhutta and Juq (1999) present the best use of benchmarking in table 5.

Table 5. *The matrix of different form of benchmarking*

What is benchmarked	Against what to benchmark			
	Internal	Competitor	Functional	Generic
<i>Performance</i>	<i>Medium</i>	<i>High</i>	<i>Medium</i>	<i>Low</i>
<i>Process</i>	<i>Medium</i>	<i>Low</i>	<i>High</i>	<i>High</i>
<i>Strategic</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>Low</i>

Source: *Bhutta and Huq, 1999*

As can be seen in the above table, benchmarking is most efficient when done between competitor in means of strategy and performance. The value of benchmarking for this research is that ingredients of benchmarking type research can be witnessed in the empirical part of the research.

This sub-chapter concentrated on the current trends of BMP in form of a timeline and represented the most current trends of BPM that are relating to authors study. We can note from the chapter that BPM in general has changed a lot during the last few decades. Before completing any measurement it is extremely important to understand what is measured and what is the most suitable metrics for the purpose. After forming a picture on BPM we can move to EY EOY competition and see how EY is measuring the performance of the participants.

3.3 EY Entrepreneur of the Year – analyzing candidates performance

EY has arranged the global Entrepreneur of the Year competition since 1986. In Finland the first competition was arranged in 2003. Over 11 years (2003-2013) EY Finland has ranked 436 Finnish companies according to six-folded criteria. The criteria according to EY (2014) are:

1. *Entrepreneurial spirit*
2. *Financial performance*
3. *Strategic direction*
4. *Community/global impact*
5. *Innovation*
6. *Personal integrity/influence*

Entrepreneurial spirit refers to entrepreneurs' commitment, vision, calculated risk-taking and capacity for personal growth. In order to qualify the entrepreneur must demonstrate perseverance in the face of adversity and to overcoming obstacles. Moreover the entrepreneur has tasted significant disappointments and learned from experiences. While he/she relies on trusted individuals and the team, also shows capacity to be an independent thinker and to take risks in the face of uncertainty.

Financial performance is calculated in terms of return on equities, revenues, profitability, and growth rate indicating long-term sustainability. This is reflected in the strength of the organization's financial performance today; the track record in raising finance; the quality of past investments; and the provision in place for long term sustainability. EY puts emphasis on both revenue growth and profit development for the past four years. This is why the compound annual growth rate and development of profit margin are the measurements included also in the empirical of the research.

Strategic direction indicates how the entrepreneur creates and turns business visions into business realities. Builds and rebuilds the teams' commitment to the common goals. Demonstrates entrepreneurial maturity by building strategic alliances and surrounding him/herself with talented people—individuals, teams, the Board, and a range of advisers/allies to ensure success for all.

Community/Global Impact is the aspiration of making an impact in terms of job creation and improved living economics in their own community and globally if business has expanded successfully overseas.

Innovation then means that the candidate pioneers a new approach or technology. Recognizes business imperative of anticipating and embracing changes occurring in the competitive environment through continuous improvement and innovation in all aspects of the business. Creates a culture of innovation.

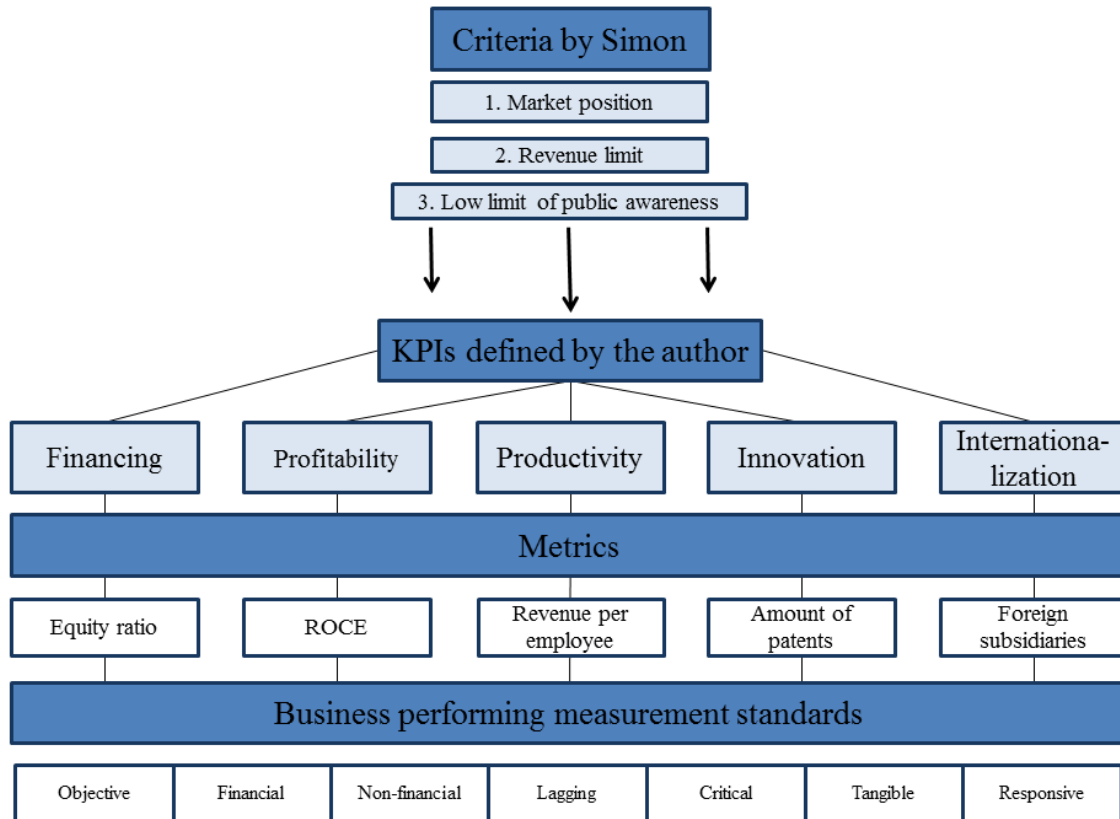
Personal Integrity/Influence in turn illustrates how the entrepreneurs are living their values, has earned him/her great respect from staff, competitors, advisers, family and wider community. Coupled with the ability to communicate ideas, this creates the potential to influence others.

In subjective terms it is relevant to believe that the criteria offers good basis for choosing competitor companies. In this regard we have to remember that EY is a multinational professional services firm with over 175,000 employees. The selection criteria have been tested for almost 30 years. Moreover the board that selects the competitors consists of high-level business influencer from various field of business. In light of these facts it is justified to argue that all the competitors selected to the EOY competition presents the top of their league and are qualified companies to form the sample group of the empirical research.

3.4. Theoretical framework

The theoretical contribution of this study is in establishment of a framework for identifying HGs. The framework is divided into three sections. The first section reveals the criteria by Simon: market position, revenue limit and low limit of public awareness. However only by relying in these aspects it is impossible to analyze HGs effectively. Therefore the KPIs described in the theoretical part of this study are included in the framework. Descriptively the KPIs are financing, profitability, productivity, innovation and internationalization. The next step is to understand the metrics that enables the measurement of the imposed KPIs. The metrics are equity ratio for financing, return of capital employed for profitability, revenue per employee for productivity, amount of patents for innovation and amount of foreign subsidiaries for internationalization. More over the characteristics of the measurements are introduces on the bottom of the framework. The utilized measurements are 1) objective, both 2) financial and 3) non-financial measurements, moreover the measurements are 4) lagging, meaning that they are looking behind, 5) critical, which demonstrates that the metrics are vital in terms of the company strategy, 6) tangible, meaning that the measurements can be quantified and 7) responsive, meaning that the measurements can be affected by individuals. The theories and researches which were touched upon in the theoretical part of the study will now be tested in action since the theoretical framework offers tools for analyzing Finnish HGs performance and compare them against their industry and HGs identified by Hermann Simon.

Figure 10. The theoretical framework of the research



Source: Author has modified the framework from Simon, 2009., Hudson et al. 2001., Kellen, 2003. and Cocca et al. (2010).

4. RESEARCH METHODOLOGY

This chapter will introduce the empirical part conducted by the author. The first section of the chapter aims to explain the design of the research and the data collection method. The second section concentrates in the analysis method.

As noted earlier the research seeks to answer into five hypotheses:

H1: Identified Finnish HGs have higher equity ratio compared to non-HGs.

H2: Identified Finnish HGs have higher return on capital employed compared to non-HGs.

H3: Identified Finnish HGs have higher revenue per employee ratios compared to non-HGs.

H4: Identified Finnish HGs have more patents per thousand employees compared to non-HGs.

H5: Identified Finnish HGs have more foreign subsidiaries compared to non-HGs.

The five hypotheses were formed from the belief that HGs differ from average companies in terms of the monitored variables. The theoretical part of the study offered background concerning the selection of these specific variables. The empirical part of the study will then test the hypotheses in action by comparing Finnish manufacturing HGs and Finnish manufacturing companies that do not possess HG characteristics, but are still growth companies selected by EY for their growth entrepreneur competition.

Before entering into the research methodologies of this research it is relevant to investigate what previous country specific research on HGs have been conducted and what kind of research methods have the researchers utilized in these.

4.1 Review of other country level research on HGs

The secondary purpose of this sub-chapter is to present previous country level research on HGs. However, the primary purpose is in revealing the research methods of the previous researches, and in providing foundation for research methods of this research.

Author's prior expectation was that country level research on HGs has not been conducted a lot. However by exploring the research field it was retained that prior research has been done in every neighborhood country of Finland. By searching from web it was revealed that research in HGs has been conducted in Norway, Sweden, Russia as well as Estonia. As follows the author will review the most significant previous country level researches.

In addition to Simon (1996 and 2009) HGs have been studied by a various researchers in a various countries. The first such research introduced here is made by Voudouris et al. (2000) on Greek Hidden Champions. At least from author's suspicion the four researchers were the first to exploit Simon's research in country specific frames (other than Simon). The purpose of the research was in identifying successful Greek SMEs that could be qualified as HGs and then uncover the factors that have contributed to the success of the companies. After the identification of Greek HGs the authors of the research interviewed the management of the HGs in form of in-depth interviews. In their results the authors show how the identified Greek HGs have substantial resemblance with HGs identified by Simon. The second research in country level is conducted in Sweden by Din et al. (2011) at University of Gothenburg. Also their research contributes in identification of HGs in Sweden and in explaining how the HG strategies introduces by Simon have been successfully exploited in the identified companies. The third research on country level was conducted in Norway by a Master's level student Steffen Boga (2012) at Norwegian School of Business. In his research Boga seeks to identify HGs in Norway, in the region of Hordaland. Boga utilized qualitative interviews as a research method in his research. The fourth research on HGs on a country level was conducted by a group of researchers in CEE

and Turkey (McKiernan and Purg 2013). Namely the research consisted of identification of HGs in 18 countries of Eastern Europe so its scale is almost comparable with Simon's researches. Yet again the purpose of the research was in identifying country level HGs and in exploring the organizational behavior of such companies. The identified previous country level researches on HGs are presented in table 6.

Table 6. Previous country level research on Hidden Champions

Year	Country	Author(s)	Purpose	Research method
1996 -	Germany	Hermann Simon	Continuous pioneering research	Both quantitative and qualitative
2000	Greek	Voudouris et al.	Identification and learning from	Qualitative in-depth interview
2011	Sweden	Din et al.	Identification and learning from	Unknown
2012	Norway	Boga	Identification and learning from	Qualitative interviews
2013	CEE and Turkey	McKiernan and Purg	Identification and learning from	Both quantitative and qualitative

Source: Simon 2009, Voudouris et al.,2000, Din et al., 2011, Boga, 2012 and McKiernan and Purg, 2013

Previous country level research has mostly similar kind of characteristics in terms of research purpose and research methods. Most of the researchers have utilized an original survey questionnaire developed by Simon and retained quite similar research results upon HGs managements' and entrepreneurs' answers. In these circumstances it might be justified to state that HGs strategies and performance does not vary too much on country level – at least in Europe. This might be because the researchers have relied too much on subjective data provided by HGs themselves, because similar questions might offer similar answers especially when companies that are interviewed possess uniform characteristics. For this reason the author will take a slightly different orientation regarding the research methodology.

4.2 Research design and approach

Last sub-chapter introduced the previous researches on HGs in country level and came into a conclusion that most of the existing research follow the same pattern and produce relatively similar results. This sub-chapter then explains how the author of this research will conduct the empirical research.

The research was designed in a way that it would allow establishment of new experiments and ability to cope with surprises that would occur during the research (Cambell, 1998). Moreover as the theoretical part introduced a set of KPIs that might separate HGs from competitors the empirical part is willing to continue on the same path. Azevedo (2005) introduces the ideology of a map of factors that contribute to success of companies. Similar characteristics can be seen in benchmarking.

Simon (2009 p. 318-322) suggest benchmarking as an efficient method for comparing HGs with other companies. As noted in the theoretical part, benchmarking can be utilized as a tool for comparing different strategies, processes and performance. In its most efficient form it can be utilized in order to compare strategies and performance between chosen companies. However the theoretical part of this research observed benchmarking from a practical perspective.

Kyrö (2004) has studied benchmarking from the scientific perspective and approaches benchmarking in its scientific essence from an action research orientation. According to Kyrö, “action research methodology combines practical needs for developing performance and the collective intentional learning into it. It could therefore be used at the same time for both practical development and scientific studies.” Reason and Bradbury (2001) describes action research as a research method that “seeks to bring together action and reflection, theory and practice, in participation with others, in the pursuit of practical solutions to issues of pressing concern to people, and more generally the flourishing of individual

persons and their communities”. Kyrö (2004) also offers ground for benchmarking as an individual research method. In these circumstances the research has some slight characteristics of both; an action research and a benchmarking research. From Simon’s, Kyrö’s as well as Reason’s and Bradbury’s statements we can note that benchmarking requires usually both investigation and action. In this research the action phase is omitted from the research since doing so would require a whole new research and a sample company that would act upon the results of the research. Maybe this company will be author’s own company in future. The established framework could encourage into action if a certain company wants to learn from HGs and act upon their strategies. In a scenario a company in a niche market wishes to learn from HGs. The decision-makers in the company could look upon the theoretical framework introduced in this study and learn how their company position against HGs. Then the decision-makers could act upon the strategies revealed by Simon. This can be seen as a real life example of benchmarking.

Author’s research approach in the study is dominantly realistic, since most of the data processed in the study is objective data. However, since not all of the data collected is objective, but subjective, some elements of positivism are visible. Deductive reasoning is also in an important role in the research. Characteristics of deductive reasoning can be noticed from formulation of the KPIs. The defined KPIs are operating as the core of the research and they are retained from Simon’ earlier work. The author believes that Simon’s theory is the truth and hence the author has built the KPIs around Simon’s theory. However, also some elements of inductive reasoning occurred during the research process. The mixed research approach is mainly based on the fact that the study was formed from both objective and subjective data. The researcher needed to adapt on the surprises that occurred during the research. Buchanan and Bryman (2007) notices that while there is ambiguity in contextual properties of a research it calls an evolutionary approach concerning the whole research design. In overall author’s research is structured in a pretty similar method as the research of HGs in CEE and Turkey. In the book (McKiernan and

Purg 2013, p. 11) the author's refer to Eisenhardt and Bourgeois (1988) who state that research methods should be regularly adjusted according to circumstances in a flexible manner if the preliminary plans become unsuitable in the course of the research. To be honest the above-mentioned adjustment was required in author's study as well during the research process.

From the above mentioned reasons author's research is completed in a qualitative method. A qualitative questionnaire was sent to the identified Finnish companies and based on the results of the questionnaire, results were formed. For supporting secondary data the author collected data from two interviews conducted for two Finnish HGs, earlier transcribed interviews of the sample companies' representatives, data on sample companies' websites as well as data in Odin database.

4.3 Data collection

The author started the identification process of HGs in autumn 2013. To efficiently identify certain companies a framework was naturally needed. The preliminary framework was that established by Simon on the criteria of HGs.

1. Number one, two or three in the global market, or number one on its continent
2. Revenue below €3 billion
3. Low profile of public awareness

Moreover the author concentrated in the specific criteria mentioned above:

4. The identified company should be operating in a truly narrow market, called a niche market
5. The company is underpinning product quality and service in their strategy
6. The company has invented an innovative product and differentiated from competitors by this invention
7. The company is technology and market driven
8. The company is family or privately owned with strong goal oriented leaders

In this sense the initial identification process fulfilled the criteria of empirical research. For the further identification process (numbers 4-9) the author made concrete observations on Finnish companies and rated them based on the criteria. The actual process of identifying Finnish HGs was extremely time-consuming. In addition to the questionnaire and two interviews, secondary sources such as public reports, media, web and Odin database were used. It was hard to identify Finnish HGs that would fulfill every criterion. After discussions with EY, the author decided to downscale the range into companies that have participated into EY EOY competition over its existence. Further on, backed with Simon's statement, that HGs are often single-product manufacturers, the sample was decreased to consist only manufacturing companies. This act eased the process of data collection since the sample group was smaller and there was a straight orientation in the process.

The intention was to find Finnish companies that are operating in narrow niche markets and claims they are global market leaders in their market segments. In this context, from research technical reasons as well as the time frame of the research, in most cases the only option was to rely on subjective knowledge of company representatives and experts on the field. Exploring every market with care and solving companies exact market shares would have required excessive amount of resources and time from author's part. The identification process was conducted between February and March 2014. After delimiting the sample group it was actually quite convenient to identify HGs in Finland. Mostly this was because information is easily accessible in Finland, and even hidden, most of companies had covering websites with plenty of information.

As it was necessary to identify Finnish HGs, it was also important to understand HGs special characteristics and define suitable performance measurements for analyzing HGs performance. After identification of the KPIs the author collected secondary data to answer the hypotheses dealing with the KPIs. The secondary data was collected mainly from Odin. Odin contains comprehensive information on companies in the Nordic and Baltic countries

(Bureau van Dijk, 2014). If a certain data was missing the author deployed the data of a questionnaire (which was sent to 79 identified HGs), the data from two interviews with HGs representatives and data on other sources such as companies' webpages. In these circumstances the data collection was conducted in a multiple method, which is for example suggested by Mintzberg (1979). The data collection period was between March and April 2014. The list below illustrates the data regarding the performance indicators that were collected:

1. Operating revenues, 2012-2008
2. Compound annual growth rate of operating revenue, 2012-2008 (KPI)
3. Average profit margin, 2012-2008, (KPI)
4. Average equity ratio, 2012-2008 (KPI)
5. Average return on capital employed using p/l before tax %, 2012-2008 (KPI)
6. Amount of employees, 2012-2008
7. Average operating revenue per employee, 2012-2008 (KPI)
8. Amount of patents, 2012
9. Amount of patents per employee, 2012 (KPI)
- 10) Amount of foreign subsidiaries, 2012 (KPI)

Moreover a questionnaire was send to 79 potential HGs by Päivi Graefe from Finnish-German Chamber of Commerce. Professor Arto Lahti from Aalto University and the author helped in structuring the questionnaire. A total of 24 responses were received. The purpose of the questionnaire from author's research perspective was that the answers widen the scope of the data and offered more content in order to study the hypothesis. As we can see the author utilized a multi-source method for data collection.

In overall a total of 7 KPIs were collected. Five of these are those identified as KPIs of HGs in the theoretical part of the study. The two other KPIs are those that EY utilizes in orders to analyze candidates for EY EOY competition. According to Laitinen (1986) an analysis that deals with performance indicators that vary depending on the year should always consist of several years. Laitinen states that the minimum for such sample is 3 years. Therefore all of the KPIs (except amount of patents and amount of foreign subsidiaries) were analyzed between years 2008 and 2012.

4.3 Sample

The sample of the research was formed from 436 EY EOY Finland participant companies from 2003 to 2013. The companies were divided into 15 groups based on NACE Rev.2 classification (European industrial activity classification, 2008, p. 43). Among all the industries a total of 25 potential HGs were identified. Since the research was conducted on manufacturing companies a total of 12 HGs were identified among 102 Finnish manufacturing companies. The selection was based on the criteria by Hermann Simon (2009, p. 15). Table 7 illustrates the chosen Finnish manufacturing HGs identified, while table 8 illustrates the Finnish manufacturing non-HGs. As it is the identified Finnish HGs possess Hidden Champions like characteristics. Therefore it needs to be stated that they might not fulfill the criteria in every sense - for example similar revenue growth.

Table 7. Identified Finnish manufacturing Hidden Champions

	Aimo Kortteen Konepaja Oy	Avant Tecno Oy	Dynaset Oy
Niche market	x	x	x
One of the market leaders *subjective	x	x	x
Operating revenue 2012 th EUR	7035	79742	14195
Foreign trade	60% into 20 countries	75% into 40 countries	Direct export 80% into 60 countries
Ownership	Founder or family	Founder or family	Founder or family
Founded	1969	1991	1986
Quality and service orientated *subjective	x	x	x
Innovative products *subjective	x	x	x
Patents per thousand employee	111	97	133
	Golla Oy	Hikinoro Oy	Molok Oy
Niche market *subjective	x	x	x
One of the market leaders *subjective	x	x	x
Operating revenue 2012 th EUR	21563	10477	12484
Foreign trade	80 %	?	Presence in over 30 countries
Ownership	Founder or family	Founder or family	Founder or family
Found	1994	1982	1991
Quality and service orientated *subjective	x	x	x
Innovative products *subjective	x	x	x
Patents per thousand employee	0	0	186
	Normet Group Oy	Oy Lunawood Ltd	Polar Electro Oy
Niche market *subjective	x	x	x
One of the market leaders *subjective	x	x	x
Operating revenue 2012 th EUR	242341	18043	154138
Foreign trade	Presence in 24 countries	Majority is exported	95% of sales
Ownership	Founder or family	Founder or family	?
Found	1962	1986	1977
Quality and service orientated *subjective	x	x	x
Innovative products *subjective	x	x	x
Patents per thousand employee	0	166	116
	Satel Oy	Stresstech Oy	Vexve Oy
Niche market *subjective	x	x	x
One of the market leaders *subjective	x	x	x
Operating revenue 2012 th EUR	14035	10677	43553
Foreign trade	88 %	88,30 %	Over 80%
Ownership	Founder or family	Founder or family	?
Found	1986	1984	1960
Quality and service orientated *subjective	x	x	x
Innovative products *subjective	x	x	x
Patents per thousand employee	0	37	7

Table 8. Finnish manufacturing non Hidden Champions

Name	Name	Name
Ab Ekeri Oy	Janavalo Oy	Oy HW-Company Ltd
Ab Närpes Trä & Metall	Jokioisten Leipä Oy	Oy RL-Trans Ab
Ab Sarins Båtar Oy	Kera Group Oy	Pemamek Oy
Air Wise Oy	Kivikylän kotipalvaamo Oy	Pohjois-Suomen Hirsitalokeskus Oy
Akvaterm Oy	Kurikka Timber Oy	Polarica Oy
Aulis Lundell Oy	Kuusamo Hirsitalot Oy	Premec Oy
Bella-Veneet Oy	LaattaBest Oy	Profile Vehicles Oy
Betamet Oy	Lasiliiri Oy	Pölkky Oy
Betonimestarit Oy	Leo Laine Oy	Reimax Electronics Oy
Betsset Oy	Levanto Oy	Relicomp Oy
Biolan Oy	Lipa-Betoni Oy	Riikku Rakenteet Oy
Crimppi Oy	Listatalo Oy	Sataservice-Yhtymä Oy
DMP-Digital Media Partners Oy	Luoman Oy	Scanfil Oyj
Eino Korhonen Oy	Marinetek Group Oy	Sepa Oy
Ekovilla Oy	Marvaco Oy	Sievin Jalkine Oy
Elega Oy	Meka Pro Oy	SOP-Metal Oy
Enerpoint Oy	Metallisorvaamo M. Hakala Oy	Suomen Tekojää Oy
Erikkila OY	Miilux Oy	Sähkö-Rantek Oy
Eskopuu Oy	Multimek Oy	Temal Oy
Ferroplan Oy	Mäkelä Alu Oy	Tevo Oy
Finn Spring Oy	Narvi Oy	UPC Konsultointi Oy
Finnfoam Oy	Nordic ID Oy	Uutechnic Oy
Finnlamelli Oy	Novita Oy	Valukumpu Oy
Finn-Savotta Oy	Oilon Oy	Veisto Oy
FM-Haus Oy	Ojala-Yhtymä Oy	Veljekset Ala-Talkkari Oy
Haapajärven Kome Oy	Oplax Oy	Vieskan Elementti Oy
HB-Betoniteollisuus Oy	Ouman Oy	VM-Carpet Oy
Heikki Laiho Oy	Oy E. Boström Ab	Voglia Oy
HK Instruments Oy	Oy Elkamo Ab	Vulganus Oy
Hätälä Oy	Oy Fiblon Ab	YBT Oy

4.4 Data Analysis Method

According to Ragin (1987) virtually all empirical social research involves comparison of some sort. Liao (2002) argues that statistical methods are at the heart of such comparison. The first purpose of the empirical part of the study was in comparing HGs and non-HGs performance and see whether HG companies differ from non-HG companies on basis of the defined performance indicators. The second purpose of the research was in comparing Finnish HGs to the HGs identified by Hermann Simon. The author analyzed the data with Microsoft Excel. All the company information was sorted to Excel. In Excel the author formulated a model for analysis purpose. The data was arranged into seven categories according the defined KPIs. Every KPI, except amount of foreign subsidiaries and amount of patents per thousand employees, were illustrated in form of a five year time scale (2008-2012). The author then calculated the average of every KPI for every company. After calculating the averages for every KPI the companies were divided into two groups HGs and non-HGs according the criteria by Simon. For both groups the author then calculated the total average of every KPI in detail. The author calculated the average value (mean), on average, how much each measurement deviates from the mean (standard deviation from the mean), and the midpoint between the lowest and highest value (median). In most cases regarding the KPIs the variance between the data points was wide. Therefore the author utilized median in order to calculate the middle operating point. After that the author formed a measurement chart for every KPI, and placed the median number for HGs and non-HGs. After this act the author was able to witness the difference between the KPIs among the two groups. The results are then demonstrated in chapter five.

Besides analyzing the difference between the virtual sample groups introduced in this chapter, the author compared the identified HGs to the HGs identified by Simon. The purpose of this was in providing more reliability to the research and ensuring that the results accrued from the preliminary research are not coincidence.

In this chapter the author outlined the research methodology of the Master's Thesis. In next chapter the empirical findings will be presented.

5. EMPIRICAL FINDINGS, DISCUSSION AND ANALYSIS

The hidden vision of this research was in bringing the concept of HGs more familiar to larger audience in Finland. As stated a various times in the study Hidden Champion concept is not yet a familiar concept in Finland. Earlier studies on HGs completed in other neighborhood countries of Finland however exist. By formulation of a five-folded KPI framework for HGs in the theoretical part of the study the author intended to introduce a platform for future researchers who are willing to identify and analyze HGs and for companies willing to assess their performance against other HGs. All of the success factors are those emphasized by Hermann Simon (1996, 2009).

In previous chapters two sample groups were formed. Other consisting of 12 HGs and other of 90 non-HGs. In addition to analyze the sample groups in light of the five KPIs, the sample groups were analyzed also in terms of revenue growth and profit margin development during a time period between 2008 and 2012. As follows the author will analyze both sample groups from perspective of the KPIs as well as from the side of revenue growth and profit margin development.

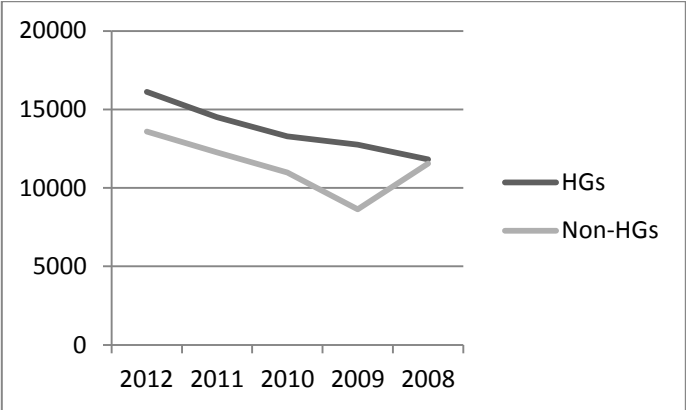
5.1 Comparison of HGs and non-HGs

Revenue growth

Here the author will illustrate how the HGs have performed against non-HGs in terms of revenue growth. Since the data points were distributed unevenly among the groups and since the sample is small the author first calculated the skewness of the data points and came to a conclusion that median is the right tool for calculating the average for revenue growth for both company groups. The mean for non-HGs operating revenue over 2008-2012 was *19038 th €*, standard deviation *6092 th €* and median *11561 th €*. For HGs the

corresponding figures were 39380 th € for mean, 10897 th € for standard deviation and 13892 th € for median. The development of the growth curve between 2008 and 2012 is presented in the figure 6. As we can see from the difference between mean and median the results cannot be seen really reliable. Therefore a larger sample group would be needed for future research purposes. However the results provide some ground regarding this research.

Figure 11. Operating revenue of HGs and non-HGs 2012-2008 (thousand €)



The author did also calculate the CAGR for the two groups. As noted earlier the data values recording annual operating revenue were statistically dispersed so median was utilized in order to calculate CAGR. For HGs the median for CAGR from 2008 to 2012 was 3,22% and for non-HGs 2,70%.

Comparison of revenue growth between HGs and non-HGs illustrates that in general the manufacturing companies that have participated in EY EOY competition are growing steadily. When comparing the revenue growth of HGs and non-HGs the only remarkably difference is during the financial crisis of 2007-2008. While non-HGs suffered from the crisis in terms of revenue growth the HGs did not suffer of it in a similar level. The growth

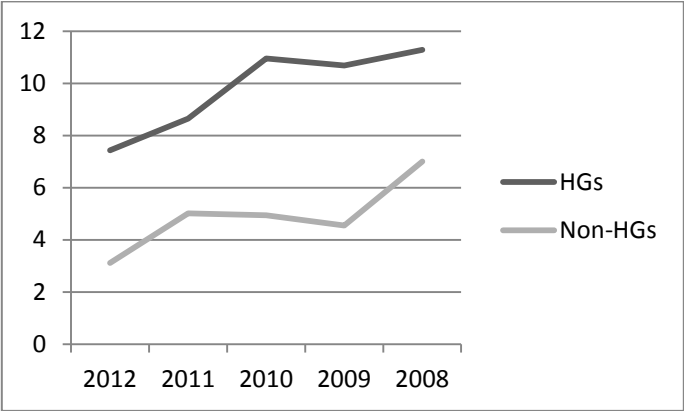
was smoother for HGs during 2008 and 2010, but the trend has been steeper since. After 2010 the growth of non-HGs has been on similar level with HGs.

In comparison with the HGs identified by Simon Finnish HGs are a lot behind. Simon (2009, p.30) shows that the HGs in his studies have an average annual growth rate of 8,8%.

Profit margin

The second calculation is on profit margin. Average profit margin of both company groups were also calculated from 2008 to 2012. For profit margin the data values were more normally distributed meaning that mean and medium were closer to each other. For HGs the median was 9,5% and standard deviation 4,2%, while mean was 10,2%. For non-HGs the median was 4,9%, standard deviation 7,0% and mean 5,8%. In terms of validity the author utilized median as a factor to calculate average for profit margin from 2008 to 2012.

Figure 12. Profit margin of HGs and non-HGs 2012-2008 (%)



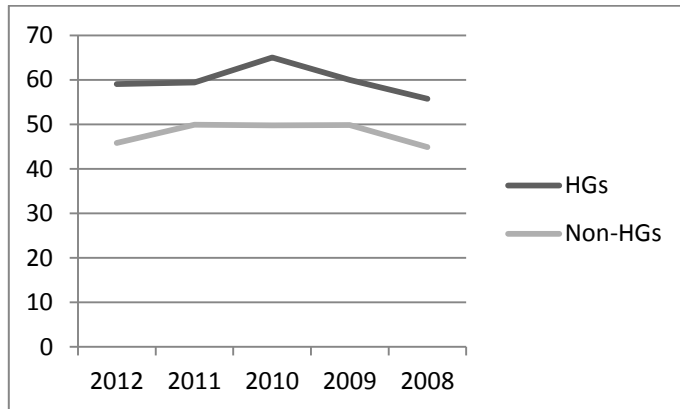
HGs average profit margin has decreased significantly between 2008 and 2012. While the median profit margin was 11,28% in 2008 it had dropped to 7,43% in 2012. The drop of

34% signifies that HGs have not been able to grow their profit margins, even a profit margin of 7,43% is quite promising. On the other hand the profit margin of non-HGs has all the time been much lower compared to HGs. In 2008 median profit margin for non-HGs was 7% and in 2012 as low as 3,1%. A drop of 55% is even more alarming. So what can we learn from these downward slopes? Firstly it is clear that the results are concerning. However the results should be put into a larger scale for more valid and reliable results. In authors opinion the results reflects the challenging situation Finnish manufacturing industry is facing nowadays. While manufacturing growth companies are facing such a significant drop in their profit margins it is relevant to ask what kind of corrective acts should be completed in Finland in order to improve the prevailing trend? This case was discussed already in the introduction phase of the study and the results of authors results are in line with the existing understanding of the situation. However redeeming actions by government are still without implementation.

Equity ratio

After identifying revenue growth and profit margin we will move to the actual KPIs that were identified as specific KPIs for HGs. The first such KPI is equity ratio. As profit margin and revenue growth also equity ratio will be calculated for a five years period (2008 to 2012). Median equity ratio for HGs was 59,03%, standard deviation 24,41% and mean 57,99%. For non-HGs the corresponding numbers are 49,08% for median, 23,67% for standard deviation and 46,97% for mean. The author illustrates the development curve of equity ratio in figure 8.

Figure 13. Equity ratio of HGs and non-HGs 2012-2008 (%)



Both Finnish manufacturing HGs and non-HGs have maintained a relatively high equity ratio during the observation interval. As in terms of revenue growth and profit margin the HGs overcome non-HGs. In Simon's studies the average equity ratio for HGs was 41,9%. For Finnish HGs studied in this research the equity ratio was 55,76% in 2008 and 59,03% in 2012. For Finnish non-HGs in this research the corresponding numbers were 44,89% in 2008 and 45,82% in 2012. We can witness that in both cases the equity ratio has remained strong. High equity ratio can be linked to the long-term orientation in both sample groups. Majority of the companies in both sample groups are owned either by families, founders or other private owners. In Simon's observations (2009, p. 226) self-financing will retain its role as the major source of financing in future. However Simon notes that the role of capital market equity will grow its role as a source of financing in future among HGs. The results of the research raise certain thoughts of HGs growth orientation in future. Even Simon states that financing is not seen as a growth constraint among HGs, he also notes that HGs orientation concerning their profits was one of the aspects HGs are least satisfied with. It is also relevant to ask whether the situation is similar for Finnish HGs. What is the real

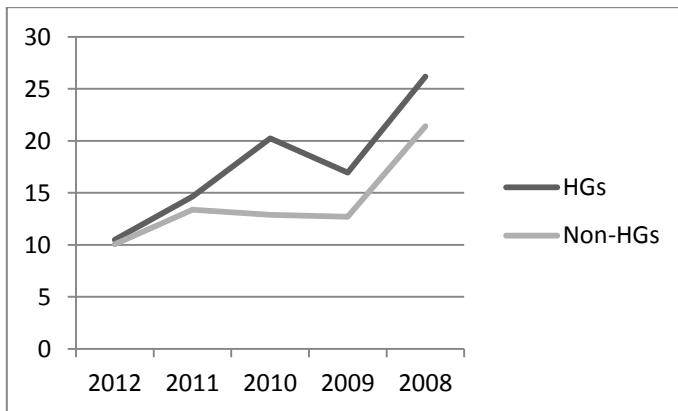
correlation between decreasing profit margins and high equity ratio? Should HGs be more risk taking and seek for growth opportunities from external capital?

From the results acquired we can state that hypothesis 1: “identified Finnish HGs have higher equity ratio compared to non-HGs”, can be supported.

Return on capital employed

Another KPI identified for HGs is ROCE. Similar to the other financial indicators also ROCE was calculated over a five years period (2012-2008). Median ROCE for HGs is 17,04%, standard deviation 7,9% and mean 19,7%. For non-HGs the similar numbers are median 14,32, standard deviation 17,83 and mean 14,78. The curve for ROCE is illustrated in figure 9.

Figure 14. Return on capital employed of HGs and non-HGs 2012-2008 (%)



Compared to the return of capital employed of HGs studied by Simon (2009, p. 226), which is 13,6% in average, the ROCE of HGs in 2012 is not significantly different. The median ROCE for Finnish HGs in 2012 was 10,48%. However, in 2008 the median ROCE for HGs

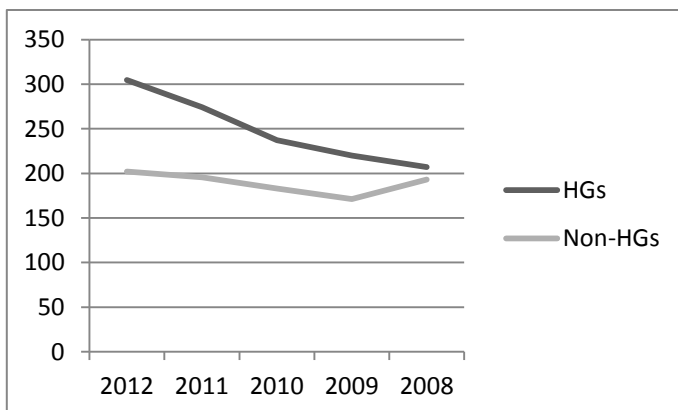
was 26,17%. In these terms the median ROCE for HGs has dropped by astonishingly 60%. It is a hair-raising drop and raise to think about the direction where Finnish HGs are heading. On the other hand the ROCE of non-HGs has also dropped from 21,41% in 2008 to 10,04% in 2012. The total decrease is therefore nearly 53%. The same conclusions can be drawn from the development of ROCE as was drawn from profit margin development. The decreasing trend is most likely illustrating the challenging situation of the Finnish manufacturing industry in general.

From the results acquired we can state that hypothesis 2: “identified Finnish HGs have higher return on capital employed compared to non-HGs.”, can be supported.

Revenue per employee

The fifth KPI for analyzing companies’ performance is revenue per employee. Also revenue per employee ratio was calculated for a five years period (2012-2008). Median (2012-2008) for HGs was 251,8 th €, standard deviation 98,9 th € and mean 256,8 th €. For non-HGs median was 181,0 th €, standard deviation 137 th € and mean 227 th €.

Figure 15. Revenue per employee for HGs and non-HGs 2012-2008 (thousand €)



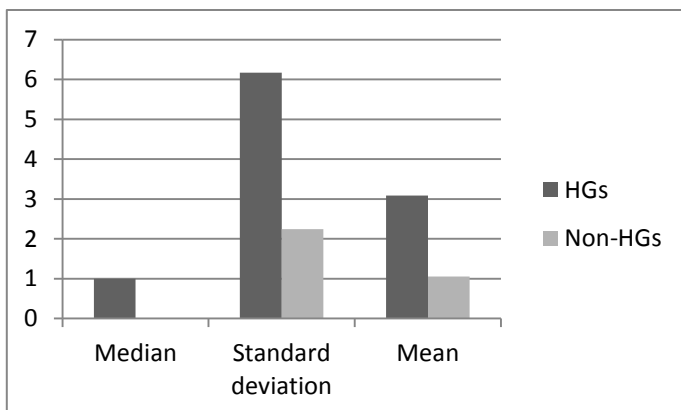
Revenue per employee in terms of this study was the most positive upward trend in HGs case. While HGs had a median revenue per employee of 207 th € in 2008 the corresponding figure in 2012 was 304,5 th € in 2012. This means a growth of 47% in just 5 years. Non-HGs had a median revenue per employee of 193 th € in 2008, which then grew to 202 th € in 2012 and signifies a growth of 4,6% over the study interval. The growing trend in terms of revenue per employee shows that if productivity is defined by this metrics Finnish HGs identified for this research have truly mastered to grow their productivity significantly.

From the results acquired we can state that hypothesis 3: “*identified Finnish HGs have higher revenue per employee ratios compared to non-HGs*”, can be supported.

Amount of foreign subsidiaries

Comparison regarding the amount of foreign subsidiaries was a bit problematic because the samples as well as the amounts were so small. Still the amount of foreign subsidiaries was counted as one of the KPIs in order to analyze HGs and non-HGs performance. In figure 11 the median, standard deviation and mean for HGs and non-HGs is presented.

Figure 16. Amount of foreign subsidiaries for HGs and non-HGs in 2012

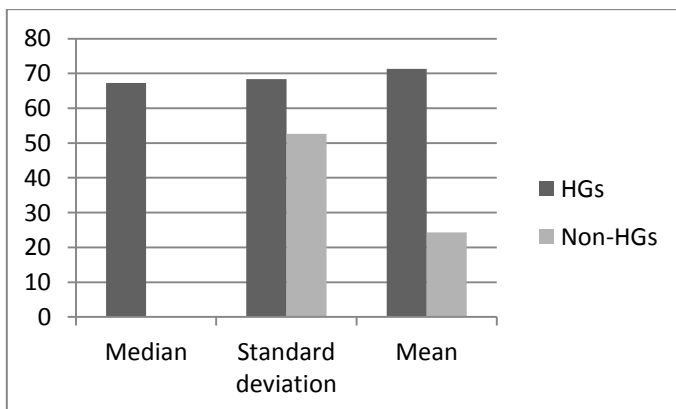


Amount of foreign subsidiaries was examined as a yardstick of internationalization in this research. Due to the small sample the results in terms of foreign subsidiaries was hard to determine validly and reliably. However, for future research with larger samples it is still relevant to publish the results also in this context. HGs median amount of foreign subsidiaries was 1 in and mean 3,08 in 2012. Respectively non-HGs the median level for foreign subsidiaries was 0 and mean level was 1,05. On these circumstances we can only guess the real difference between the two sample groups and therefore cannot determine answer to the hypothesis 4.

Amount of patents per thousand employees

As with the amount of foreign subsidiaries the amount of patents per thousand employees was problematic to count validly. This was due small sample sizes and high standard deviation among the companies. In figure 12 the amount of patents per thousand employees is presented.

Figure 17. Amount of patents per thousand employees of HGs and non-HGs in 2012



The median level for HGs in terms of patents per thousand employees was 67,2 and mean level 71,3. For median level non-HGs had the amount of patents per thousand employees of 0 and for mean 24,2. According to these numbers it is not possible to show that HGs of this sample had much more patents per thousand employees compared to non-HGs because the sample was so small. As with the hypothesis 4 we cannot retain enough reliable results in order to answer the hypothesis 5.

5.2 Comparison with Hermann Simon's HGs

Simon offers comparable data related to every KPI studied in this research. Simon (2009, p. 30) notes that HGs he had studied have had an average annual growth rate of 8,8% over the last ten years. In terms of ROCE the number is 13,6%. Average equity ratio then is 41,9%. Revenue per employee on the other hand is 160,000€. On average HGs had 30,6 patents per thousand employees and 24 foreign subsidiaries. Table 9 illustrates the comparison between Finnish HGs and Hermann Simon's HGs.

Table 9. Comparison of Hermann Simon's Hidden Champions with Finnish Hidden Champions

Indicator	Simon's HGs	Finnish HGs
<i>Revenue growth</i>	<i>8,8% per year</i>	<i>3,2% per year</i>
<i>Equity ratio (%)</i>	<i>41,9</i>	<i>59</i>
<i>ROCE (%)</i>	<i>13,6</i>	<i>17</i>
<i>Revenues per employee (€)</i>	<i>160 000,00 €</i>	<i>251 000,00 €</i>
<i>Foreign subsidiaries</i>	<i>24</i>	<i>3</i>
<i>Employees per thousand patent</i>	<i>30,6</i>	<i>71,3</i>

As in comparison with Finnish non-HG manufacturing companies, can be noted that Finnish HGs identified for this study, are strong regarding certain indicators, while not so strong in terms of every indicator. In terms of revenue growth Finnish HGs are behind HGs identified by Simon. Here we need to remember that the observation interval for Simon's HGs has been a lot longer and the interval takes place before the observation period of Finnish HGs. As for equity ratio Finnish HGs seem to be strong compared to Simon's HGs. The link between low revenue growth and profit margin and high equity ratio of Finnish HGs was discussed earlier in this the study. By continuing the comparison we can observe that even the return of capital employed ratio of Finnish HGs has dropped significantly over the last years the average is still higher when compared to HGs identified by Simon. The largest difference then for Finnish HGs is in revenues per employee and productivity. While Simon's HGs are making *160,000€* per employee on average the Finnish counterparts are making *251,000€* per employee on average. What comes to the amount of foreign subsidiaries the HGs studied by Simon are superior. The author believes that this is because of the size difference of the economies, which naturally leads to size difference between the companies in Finland and Germany. The last comparison indicator then was employees per thousand patents in which Finnish HGs outbid HGs identified by Simon. However the sample size should be bigger for reliable results. In table 10 the hypotheses and their conclusions are presented.

Table 10. *Presentation of the hypotheses*

Hypothesis	Conclusion	Reasoning
H1: Identified Finnish HGs have higher equity ratio compared to non-HGs.	Supported	Similar research might be conducted with larger samples
H2: Identified Finnish HGs have higher return on capital employed compared to non-HGs.	Supported	Similar research might be conducted with larger samples
H3: Identified Finnish HGs have higher revenue per employee ratios compared to non-HGs.	Supported	Similar research might be conducted with larger samples
H4: Identified Finnish HGs have more patents per thousand employees compared to non-HGs.	Not supported	No significant findings
H5: Identified Finnish HGs have more foreign subsidiaries compared to non-HGs.	Not supported	No significant findings

Conclusion of most significant findings

The original idea of this empirical research was to find differences in terms of the five KPIs between Finnish manufacturing HGs and Finnish manufacturing non-HGs. As noted earlier the biggest issue in this concern was the small sample groups chosen to this study. However, if the chosen companies would present all the companies in Finland the results would have been significant. The most positive factor that correlates with Simon's findings is the revenue per employee, which in this research marked the productivity of the companies. In terms of productivity Finnish manufacturing HGs differed a lot from Finnish manufacturing non-HGs as well as from HGs identified by Simon. For HGs this ratio has grown by 47% from 2008 to 2012, while for non-HGs the ratio had grown only by 4,6%. On the other hand the most separating findings in this research from Simon's research were concerning profit margin and return on capital employed. Both Finnish manufacturing HGs and non-HGs seem to suffer from serious problems what comes to their profit margins and

return on capital employed. Also their revenue growth has been a lot slower compared to HG's identified by Simon. Reasons to this trend might be in their long-term orientation, but also in the challenges Finnish manufacturing sector is facing in general. Both HGs and non-HGs have high equity ratios, which can be seen as indicators of this long-term orientation. However future studies could deepen to the correlation between high equity ratio and the inability to upkeep good profit margins. What comes to revenue growth both HGs and non-HGs have sustained a steady compound annual growth rate over the observation period. However the growth is rather modest in comparison with the HGs analyzed by Hermann Simon.

Regarding the findings we can turn the scope towards the values of the companies studied. As noted in the theoretical part of the study HGs tend to have long-term visions and a certain kind of patience in their operations. HGs are not usually aiming for short term profit maximization. Maybe the lower profit margins of Finnish HGs were signs of this orientation?

6. CONCLUSION

Studying from HGs and learning from them has been an interested path. In the introduction chapter the author raised three major points why learning from HGs could be beneficial for Finnish companies and Finnish economy in general. The first point was the important role of SMEs. It was noted in the introduction chapter that most of the modern management literature and research is conducted to mirror the large companies. In Finland the majority of our export is generated by large companies even SMEs are employing more people than large companies. If Finnish SMEs could adopt even some of the patterns presented by HGs and treated in this research the significance of SMEs as exporters in Finland could rise to a new level. As Simon states the Fortune 500 companies are operating in 100 or 200 markets globally. In these markets the competition is very fierce. However, the market presence of Fortune 500 companies in these specific markets leaves 98% of markets out of their radar (Simon, 2009). In these markets a specialized company that possesses HG kind characteristics may succeed.

The success however does not happen without hard work and patience. Most of the HGs are family or privately-owned businesses for which it is more important to grow sustainable than to stretch toward fast and uncontrolled profit maximization and utilization of external capital. This orientation can be seen in HGs high equity ratio. Compared to the HGs identified by Simon also Finnish HGs tend to have high equity ratio. Moreover the level of Finnish companies equity ratios have remained on a high level for the past five years. Profit maximization cannot be seen as a goal for HGs. The statement is presented by Simon and can be endorsed by the results of this research. The profit margin of Finnish HGs is still in a relatively high level especially when compared to other Finnish manufacturing companies, the same goes with return on capital employed. However the research suggests that Finnish manufacturing companies could probably be a little more risk taking in order to ensure

growth. What comes to productivity HGs in Finland are super performers. The author took Simon's model of measuring productivity by revenue per employee ratio and witnessed that there has been significant growth in terms of productivity among Finnish HGs. In terms of innovation and internationalization the research attempted to illustrate some phenomenon, but failed due the small research sample. It could be only tentatively argued that Finnish companies advocate high level of patent propensity and are not extremely eager to found foreign subsidiaries as do HGs studied by Simon.

6.1 Suggestion for EY EOY organizers

Hidden Champions seems to be a concept, which is acquiring more and more publicity in Finnish business environment. For professionals dealing with growth entrepreneurship, family-businesses and entrepreneurs the concept is intriguing. Therefore the author suggests that professionals, who are working with the above-mentioned topics, should at least be familiar with the basic doctrines of HGs. By identifying and investigating Hidden Champions among EY EOY participants, the author was shown that they truly own special characteristics that can be defined and measured with right tools. One way for identifying such companies can be done by seeking for companies that are operating in narrow markets and claims they are market leaders in that specific market. In a regional competition such as EY EOY Finland the market leadership can be interpreted as regional leadership. Many of the companies studied indirectly in this research, meaning that they were not included in the actual research, were market leaders in their regional markets, usually in Nordic level or had significant operations in promising growth markets such as Russia.

Moreover the author suggests that revenue and profit growth should not be the dominant indicators of success when the orientation is on Hidden Champions. For Hidden Champions equity ratio and revenue per employee are more important indicators. If these two indicators are high the next step is to observe whether the company is making profit and

what kind of average revenue growth does the specific company possess. Since Hidden Champions usually are long-term orientated they do not aim for profit maximization, which in some circumstances can be uncontrolled. In addition Hidden Champions are not relying on external capital, which in many cases can be noticed from their relatively slow but steady growth. The most prominent Hidden Champions among EY EOY participants studied in this research are: Avant Tecno, Vexve and Stresstech. However author's purpose is not to offer any certain advice, meaning that Hidden Champions should be observed with special attention. Instead the author proposes that the concept of Hidden Champions should be understood and mapping of Hidden Champions for future competition could be beneficial.

6.2 Suggestion for SME entrepreneurs

Along the research author dealt with SMEs role in Finnish business environment. It is obvious that SMEs have an important role for Finland today and in future. The Bigness complex was mentioned in the research, as well as large companies' dominant role regarding Finnish export. The example of Germany, where both SMEs and large companies are doing business in harmony was introduced.

For a regular SME entrepreneur the strategies of Hidden Champions might offer interesting practical advices relating to everyday business. I suggest that every entrepreneur would explore the eight lessons of Hidden Champions, which are illustrated in chapter 2.3. Hidden Champions concept does not offer any "miracle remedy" for successful business, but encourage into thinking "out of the box" type of mentality. As an entrepreneur himself the author has realized that many of the practical lessons of Hidden Champions can be quite easily adopted in everyday business, especially when drawing strategic guidelines. In author's opinion Hidden Champions are encouraging examples that have succeeded by doing things a bit differently with high level of motivation and determination.

6.3 Suggestion for future researchers

The author tackled Hidden Champions from a rather objective orientation. Through the research project the author formed many interesting directions for future research concerning Hidden Champions. One of the most promising would be to research Hidden Champions from large companies' perspective. How do the lessons learned from Hidden Champions suit for large companies? More over the data collected in this research opens possibilities for future research. A longitudinal research, similar that has been conducted by the inventor of the concept Hermann Simon for German companies, could be conducted for Finnish Hidden Champions identified in this research. It would be interesting to observe how Finnish Hidden Champions stand the test of time. Do they still possess similar long-term strategies that support self-financing and avoidance of external capital? How many of the companies would be merged or acquired by a larger company? What will happen to the decreasing profit margin identified in this research in future? A growing number of researches conducted in Europe on Hidden Champions reveal that the concept is reaching more and more popularity around the globe. Therefore it would be compelling to study Hidden Champions in emerging markets. On the other hand as Hermann Simon has noted most of the Hidden Champions are industrial manufacturing companies. The industry 4.0 project established by German government naturally opens new opportunities for Hidden Champions. The relevant question then is how does long-term orientated Hidden Champions, with traditions over generations cope with the upcoming trend? Does Hidden Champions witness this as a challenge or can they cope with it? Will internet of things create new Hidden Champion success stories?

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APPENDICES

Appendix 1. Company size definitions

Company size	Employees	Turnover
Large	> 250	> € 50 M
Medium-sized	< 250	< € 50 M
Small	< 50	< € 10 M
Micro	< 10	< € 2 M

Source: *European Commission, 2013.*