

# Hidden Champions' Own Way: Common Sense and Mental Internationalization



Prof Hermann Simon

## An Interview with Hermann Simon

by Milenko Gudić

*While having been voted as the most influential management thinker beside his long-standing friend the late Peter Drucker, in the German-speaking space, Prof Hermann Simon has also been recognized as the world's leading authority when it comes to revealing the secrets of success of medium-sized companies that have succeeded in becoming global leaders and dominant players in their respective niches.*

*Before committing himself to management consulting, including being Chairman and CEO of Simon-Kucher & Partners Strategy and Marketing Consultants with offices in Europe, the US, and Japan, Prof Simon was a professor of marketing at the Universities of Mainz and Bielefeld. He was also a visiting professor at Harvard Business School, Stanford, London Business School, INSEAD, Keio in Tokyo, and MIT.*

*He has published over 30 books in 22 languages, including the worldwide bestseller Hidden Champions (1996) and Power Pricing (1997), Strategy for Competition (2003) and Think! (2004), Manage for Profit, Not for Market Share (2006), and Hidden Champions of the 21st Century, Success Strategies and Unknown World Market Leaders (2009). His most recent book Beat the Crisis – 33 Quick Solutions for Your Company was published in the US, China, Korea, Brazil, Russia, Spain, and Slovenia.*

*While following the on-going search for new approaches and innovative solutions that both the corporate world and management development institutions worldwide are involved in to develop new approaches and innovative responses to the challenges and opportunities of the dramatically changing world, we have positioned this interview with Prof Simon in the specific context of some of the major current CEEMAN projects and events.*

*On one hand CEEMAN is carrying out a large international research project on hidden champions in CEE, Turkey and Kazakhstan, the results of which will be presented at an international conference in Vienna, Austria, on 17-18 November.*

*The research project, which has been designed in accordance with Prof Simon's original research on hidden champions, and the conference are expected not only to assess the hidden champion phenomena and its characteristics in the transformational economies but also to produce important lessons for the corporate world and its stakeholders operating in dynamically changing environments and beyond.*

*In addition, the 19th CEEMAN Annual Conference on "Management Education in a Changing World: Are We Ready for the Challenge?", to be held in Tbilisi, Georgia, when this issue of CEEMAN News will be published, is calling on business schools to revisit their educational philosophy and reconsider the extent to which they respond to the real needs and aspirations of the markets they serve. In this connection, the hidden champion story, drawn from a real-life context, offers a number of important lessons for business schools in the CEEMAN space and beyond.*

*The Hidden Champions concept, which Hermann Simon so meaningfully and elegantly coined, represents a powerful concept that he formulated around a three-circle model, which consists of strong leadership and its outstanding motivational power; internal competences, depth and high performance of employees; and external focus, continuous innovation and closeness to the customer.*

*Prof Simon convincingly shows that the success formula essentially relies on common sense, which itself – surprisingly or not – quite often contradicts many management fads that business schools continue developing and managers around the globe keep on following.*

*With this in mind, we have asked Prof Simon to share with us his views and ideas on the hidden champion phenomena in general and in dynamically changing environments in particular. In addition to important*

lessons for the corporate world, we also wanted to learn more from him about the implications for business education and leadership development, including whether one could expect to see hidden champions among business schools themselves.

We are convinced that CEEMAN readership will find Prof Simon's thoughts, which stem from his consulting, research, and educational experience, not only interesting but also encouraging and inspirational. If some of them sound provocative, that makes this outstanding food for thought even better and more useful. Both business schools and their associations need to ask themselves to whether or not and to what extent they are true "messengers of the future rather than guardians of the past".

**Milenko Gudić: You have enthusiastically welcomed and generously supported CEEMAN's idea on conducting an international research project on hidden champions in CEE and emerging economies. Given your experience with the hidden champion phenomena all over the world, and particularly in well-established economies, what were your anticipations regarding the research results? To what extent did you expect them to confirm the validity of your theory or expected them to bring some new colors and insights that could possibly reflect a very specific context of a huge and unprecedented economic restructuring and social transformation process taking place over the two decades of the transition period?**

**Hermann Simon:** When I started my hidden champions' research in the late 1980s I was often asked whether the hidden champions are a phenomenon specific to Germany or German-speaking countries.

At first my answer to this question tended to be "yes". Over the years, however, I found out that hidden champions with very similar strategies and cultures exist all over the world. I found them in the US, South Africa, New Zealand, Japan, China, and many other countries. The main difference between countries was not in the character of these companies but their number and prevalence, which were very different from country to country. It's fair to say that the hidden champions' phenomenon is truly global.

When I started to look at the transformation economies I was skeptical whether I would find hidden champions there. My skepticism was not based on a suspected lack of competences but on the aspect of time. It usually takes decades rather than years to achieve a position of global leadership. The bottleneck is not technology but the establishment of a global market presence.

I was therefore astonished to find numerous hidden champions in countries such as Poland, Hungary, or Slovenia, to name just a few. What surprised me even more than the number of companies was the quality and qualifications of these hidden champions. I found companies of truly global excellence in sectors such as pharmaceuticals, building technology, and even nuclear science.

There is no doubt that hidden champions can flourish in the transformation economies. On

the other hand, their number is still limited. Two decades is not a long enough period to develop global market leadership on a broader scale.

**MG: Your concept of hidden champions is situated in the global context, while emerging economies in general, and each of them in particular, have their own specificities. What are the major constraints, challenges, and opportunities related to the development and flourishing of the hidden champion concept in emerging economies?**

**HS:** The major constraint in building a hidden champion is personnel, not finance or technology. To achieve world class you need highly qualified and specialized people. Such experts frequently cannot be found in the market. You have to educate and train them yourself and retain them in order to establish the high competence level typical for the hidden champions.

One specific observation of hidden champions from transformation economies was that several of the founders had experience in Western Europe and particularly in the US. After returning to their home countries they founded very successful companies. This leads to an important aspect.

A major constraint in transformation countries is the lack of international experience. While people in the West could make ample use of the freedom of foreign studies, work, or travel, even if only for holiday trips, the opportunities to gain international experience were much more limited for people in transformation economies. The relevance of what I call "mental internationalization" must not be underestimated when it comes to building a global company.

In general, companies in larger countries feel less pressure to internationalize. A case in point is Russia. According to some very interesting research by Prof Andrei Yudanov, many successful companies in Russia have little or no international business. This is similar to the US where companies, especially mid-sized ones, are much less international than in smaller countries such as Switzerland, the Netherlands, or Germany. The big exception is China, where interestingly 68% of exports (China is now the global number one in exports) come from companies with less than 2,000 employees. China is actually surprisingly similar to Germany in this respect.



**MG: Practitioners, academics, as well as management thinkers from around the globe unanimously appreciate and highly value your viewpoint on the decisive importance of the hidden champions' healthy common sense. What are the main challenges that these companies encounter in the process of pursuing common sense from the development throughout the implementation of their successful and sustainable ideas? How important is culture in this context? Or value system?**

**HS:** According to Oscar Wilde, common sense is not so common after all. This applies also to management. Time and again I have observed that management fads strongly influence the thinking and the behavior of managers.

The hidden champions are more resistant to these fads of the day. They realize that what counts and will continue to count is true value to the customer, and they deliver this value. Of course, this requires quality and innovation. Interestingly, the highly innovative activities of the hidden champions hardly ever come as breakthroughs; they tend to be more gradual.

Hidden champions improve their products from year to year, the sum of these improvements leads to what may be called perfection. The culture and value system of a company are extremely important in this context. While the hidden champions have few written statements on these issues, their culture and values are deeply ingrained, not only among the leaders but also among the employees. This cuts down on inefficient discussions and controversies. If you know that quality is a top priority, discussion of this aspect is obsolete.

Once you have established the target to be the best in your market, it's relatively clear what you have to do. Culture and values are the essential pillars of what can be called the economics of management.

**MG: Your powerful three-circle model and its eight important lessons, which start with the strong leadership capable of mobilizing employees' energies for achieving the internal competences of the middle circle through depth, decentralization, and high-performance**

**employees, and projecting them to the outer circle characterized by focus, continuous innovation, and closeness to customer, all this in the context of globalization, offers a number of important lessons for different learning partners across different areas of their work and involvement. When it comes to learning partners from emerging economies, in which areas would you consider common sense should be a starting point and in which areas common sense should be a point of return from previous, or still prevailing, illusions, failures, and mistakes?**

**HS:** There are two aspects to the three circles.

On the one hand this condensed form summarizes my most important insights regarding the strategies and the leadership of the hidden champions. It's the essence of what I have discovered over the years.

The other aspect from the point of view of the reader or observer is that this is common sense. I conclude the *Hidden Champions* book with the ultimate lesson: *"The Hidden Champions go their own ways. Essentially, their success formula is to use common sense. So simple, yet so difficult to achieve!"*

Common sense applies to all factors I list in the three circles. There may be different degrees of aberration in some of these areas. Over time companies typically lose their focus or change it frequently – a big mistake. Depth has frequently fallen victim to the trend of outsourcing. Competitive advantages are often not carefully measured and communicated to the customer but rather treated as a superficial concept.

You have to make sure you deliver substance with regard to all of these aspects. One-sidedness is always dangerous and management fads usually emphasize one aspect as the only important one before all others. To follow this kind of advice is very dangerous for managers.

**MG: What about business schools as a learning partner that could also draw from the lessons offered by hidden champions? You rightly observed that most of them teach (or preach) management fads of the day. What are the "polarity management" issues that need to be resolved in order to make management development capable of creating a new generation of business leaders, those "monomaniacs" who could effectively use their willpower and energy and ignite an equal power, passion, and common sense among the people they work with?**

**HS:** There are some things that business schools can teach while others can only be taught to a very limited extent. My experience from decades as a business professor and consultant is that too often "optimal solutions" are taught. This approach pretends that such optimal solutions (eg a profit maximum, a cost minimum etc) exist in a specific situation.

The real problems of actual management are different and the issue of polarity management comes into play. Most of the time, there are no clear answers or solutions to tricky practical problems. Practice is a messy thing. We could apply Murphy's definition: "A real problem is one for which no solutions exists". You can only teach people to a certain extent how to deal with "real" problems. The rest must be learned by doing.

A combination of theoretical learning and practical experience is probably the best preparation for successful management.

Another aspect that cannot be taught is leadership. Whether someone has the willpower, the energy, and the ability to ignite the fire in others is presumably more due to genetic heritage than a teachable quality. I myself learned leadership as a young boy in our village where I happened to be the oldest of six boys in the neighborhood and became their natural leader.

Another leadership situation that strongly influenced me was my time in the German Air Force during the hottest phase of the Cold War. As a very young officer I had to shoulder responsibilities that involved the leadership of more than 100 soldiers in a unit that handled nuclear weapons. These experiences had lasting effects on me.

**MG: In addition to teaching management fads of the day, most business schools are also themselves following the management education fads of the day, many of which might be reinforced by the prevailing international accreditation and ranking approaches and systems. Do hidden champion offer any lessons on this issue? Is there a place, and is there a need, for hidden champions to emerge among business schools?**

**HS:** This is an interesting question. It's amazing how business schools across the world are very similar. Whenever I visit such a school I don't see great differences even across countries or continents. It seems they are more or less following the same model.

Of course there are variations and each school tries to communicate its unique factors and competitive advantages to the outside world but

the substance and the magnitude of these distinguishing factors is rather limited. I don't think there are many hidden champions among business schools today but I see an interesting potential to create true hidden champions. A school could focus on a specific aspect and try to build a global reputation in this area.

There are many possible dimensions for such a uniqueness or unique selling proposition. It could be a regional focus, a focus on technology (eg on the internet), it could be a focus on a specific industry (eg life sciences or health management), it could be a target group (eg young companies or family businesses). As always there are as many opportunities to create such uniqueness as there are competitive parameters.

There are quite a few schools with an image that goes in this direction (Wharton/finance, Chicago/quantitative, Cornell/hotel management, Loyola/family business) but I don't see any school that really carries this concept through to the same extent as a typical hidden champion does. Today the schools differ by reputation but are mostly interchangeable with regard to their positioning and content.

**MG: In this respect, how do you see the role of associations of business schools, be they national, regional, and/or international? How can they facilitate the mindset change in management development? Is this also an area which calls for hidden champions?**

**HS:** Corporations and associations of business schools are definitely a good idea. The biggest advantage is that they foster internationalization. Many schools have international exchange programs and a good graduate needs international experience today. In the age of globalization it's a major disadvantage if you haven't studied abroad.

Of course this runs counter to the uniqueness I suggested in my previous answer. I am not optimistic that associations will change the mindset. They are the guardians of the past rather than the messengers of the future. Each school, each company and individual must choose their own path in the future. This decision must be made by the top management of the business school not an association.



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