Hidden Champions as a Role Model for CEE Firm Internationalization

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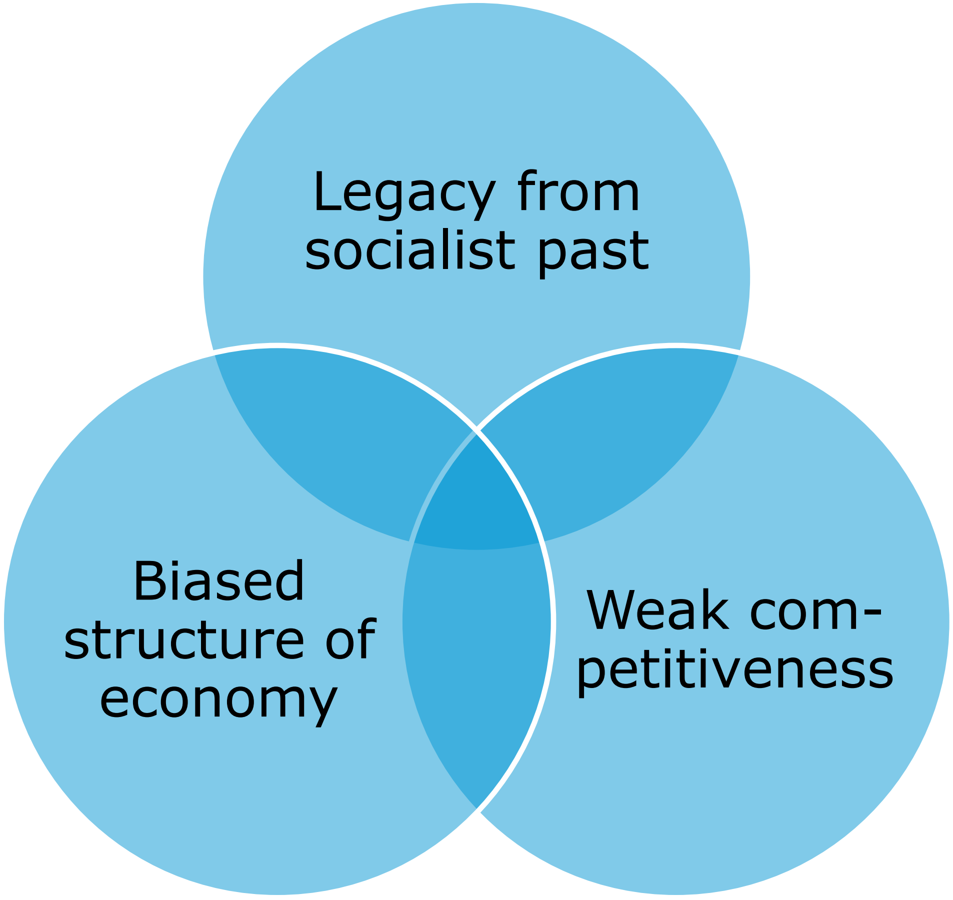
Introduction

- Integration of firms from CEE in the European/global economy is part of the economic **catching-up** process
- Internationalization of domestic firms is a sign of improved **competitiveness**
- **Hidden champions** are a strategic group of firms that fit the economic constellations in CEE well.

Internationalization from a CEE firm perspective

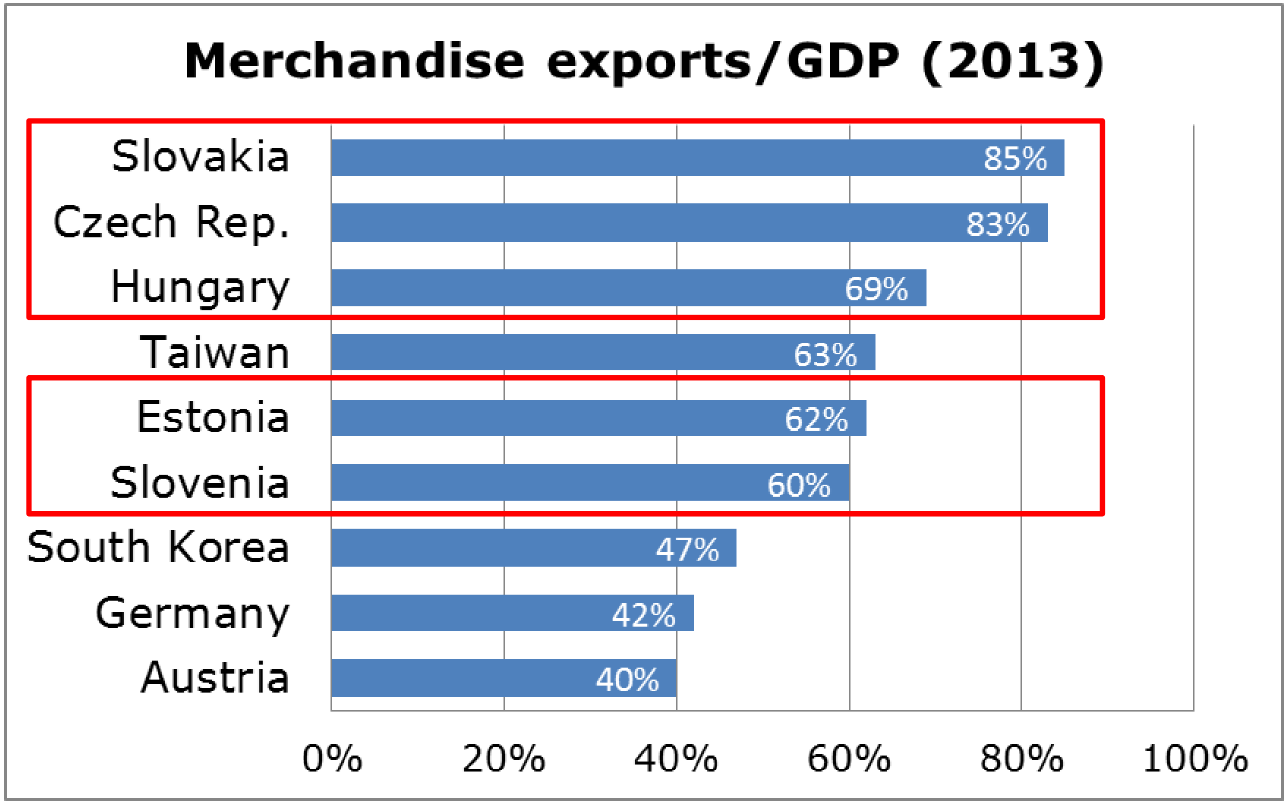


History shapes starting position for internationalizing CEE firms

- **Communist/socialist legacy**:
  - Monopolization of external trade relations
  - COMECON system of preference for intra-bloc trading/barter
  - Few internationally tradeable goods before 1990 due to inferior quality
- **Developments** after the fall of the Iron Curtain:
  - Reorientation of foreign trade from the East towards the West
  - Integration into global value chain via foreign owners/partners
  - Western multinationals use CEE firms as „extended workbench" and „export platforms"
- **Economic integration** into EU opens up a huge market
- **„Great recession (2009)"** forces CEE firms to find new markets outside of Europe.

Biased structure: CEE as an internationalization paradox

Central European countries should be a **hotbed** for successful domestic multinationals given their **high exports/GDP ratios**.



Source: CIA – The World Factbook

No locally-owned firm among top-10 exporters from Slovakia

Cas, 2012

Rank	Company name	Industry	Export ratio
1.	Samsung Electronics	LCD TV/monitors	99.7%
2.	Volkswagen Slovakia	Cars	99.3%
3.	Kia Motors Slovakia	Cars	99%
4.	U.S. Steel Kosice	Steel	-
5.	Slovnaft	Oil refinery	59%
6.	PSA Peugeot Citroen SLK	Cars	99.5%
7.	Foxconn Slovakia	LCD TV	100%
8.	Sony UK Ltd.	LCD/LED TV	98%
9.	Continental Matador Truck Tires	Tires	99%
10.	Slovnaft Petrochemicals	Petrochemicals	84%

Weakness in competitiveness hampers internationalization

World Economic Forum, 2012

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Most CEE economies lost ranks 2004-2012 in the Global Competitiveness Index

http://www.weforum.org/issues/global-competitiveness

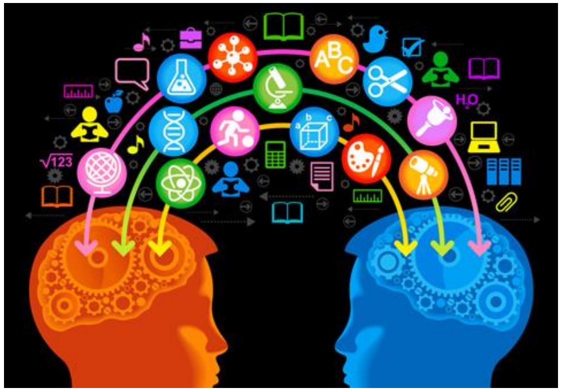
Turkey	**+23**
Poland	**+19**
Ukraine	**+13**
Russia	**+3**
Czech Rep.	**+1**

Slovakia	**-28**
Slovenia	**-23**
Hungary	**-21**
Romania	**-15**
Bulgaria	**-3**

2004		2007		2010		2012	
33	Slovenia	33	Czech Rep.	36	Czech Rep.	39	Czech Rep.
39	Hungary	39	Slovenia	***39***	***Poland***	***41***	***Poland***
40	Czech Rep.	41	Slovakia	45	Slovenia	***43***	***Turkey***
43	Slovakia	47	Hungary	52	Hungary	56	Slovenia
59	Bulgaria	***51***	***Poland***	60	Slovakia	60	Hungary
60	***Poland***	***53***	***Turkey***	***61***	***Turkey***	62	Bulgaria
63	Romania	***58***	***Russia***	***63***	***Russia***	***67***	***Russia***
66	***Turkey***	***73***	***Ukraine***	67	Romania	71	Slovakia
70	***Russia***	74	Romania	71	Bulgaria	***73***	***Ukraine***
86	***Ukraine***	79	Bulgaria	***88***	***Ukraine***	78	Romania
89	Serbia	91	Serbia	96	Serbia	95	Serbia

Much achieved but a lot more to be done

- Enormous **improvement** in product quality, productivity and international orientation in the last 25 years
- Most CEE economies – and firms too – are in a **„sandwich position"** between the efficiency- & innovation-driven stage.
- **Negative country-of-origin** effects are still complicating the entry into developed Western markets.
- CEE firms are **late-comers** to internationalization. This can also be an advantage: Learning from the successful ones.



Drivers of internationalization in CEE

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National flagships & business groups	KGHM POLSKA MIEDŹ S.A., gorenje, RG, MOL, ATLANTIC GRUPA
Subsidiaries of foreign firms	DACIA, SAMSUNG, ŠKODA, PETROM Member of OMV Group
„Born-regionals/ globals" & innovators	Sygic, Prezi, INGLOT, WALLTOPIA climbing walls
Niche specialists	AKRAPOVIĆ Exhaust System Technology, LINET, DOK-ING, VAJDA canoes & kayaks
„Gradual-internationalizers"	kofola original, inter cars części do samochodów, lpp S.A., PODRAVKA

Hidden Champions

Outlook: How to foster internationalization in CEE

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- Upgrade the **role of CEE subsidiaries** to perform higher value activities (e.g., knowledge-intensive manufacturing).
- Cooperate with **foreign firms** to get access to markets abroad.
- Develop national/regional **capital markets** to fund going abroad.
- Focus on **industry clusters** and regional strenghts areas (e.g., software, automotive, agriculture/food processing, furniture, outsourcing).
- Support clusters by industry-specific **education** and research.
- Expand **export promotion** programs.

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