



DOROTA GREGO-PLANER,  
WALDEMAR GLABISZEWSKI

## The role of innovation in the business activity of hidden leaders of the Polish economy

### 1. Introduction

The problems addressed in this publication relate to two thematic areas. The first is the concept of enterprises that are referred to as 'hidden champions' (also called 'hidden leaders'), the other problem discussed is the role of innovation in the business activity of these companies.

To start with, it is necessary to explain the meaning of the concept of 'a hidden leader'. This concept is identified with a hidden champion, and though both words are increasingly present in the subject literature, they still raise a lot of doubts. Who is this hidden champion? Who was the inventor of this concept?

The precursor of this concept was H. Simon, who was the first to become interested in this group of companies which, on the one hand, avoided publicity and, on the other hand, held leading positions in the global markets. According to the concept coined by the above-mentioned Professor, a hidden champion is considered to be a company that (Simon, Dietl 2009, p. 35):

- is number one, two, or three in the global market, or number one on the company's continent,

Dorota Grego-Planer, Ph.D.  
The Faculty of Economic Sciences and  
Management  
Nicolaus Copernicus University in  
Toruń

Waldemar Glabiszewski, Ph.D.  
The Faculty of Economic Sciences and  
Management  
Nicolaus Copernicus University in  
Toruń

- achieves revenue below 3 billion euros,
- has a low level of public awareness (anonymity).

While foreign hidden champions were identified and described with the use of a common name by H. Simon in the late eighties of the twentieth century, in Poland the only attempts to find such companies were taken much later and only on a small scale.

Conducting research on the hidden Polish champions should be noted that the definition of a Polish hidden champion was adapted to the Polish circumstances, taking into account the fact that Polish companies are still not as global as their foreign counterparts. According to the definition established by the research team, a Polish hidden champion is a company that:

- is number one, two, or three in the European market and is a leading company on the Polish market,
- achieves revenue below 3 billion euros,
- has a low level of public awareness (anonymity).

This article presents part of the outcome of the research conducted. The objective of the publication is evaluation of innovative activity Polish hidden leaders. A question arises here - can you gain a position of a European leader, or even a global one, without being a market innovator?

## 2. Companies' innovativeness against the theoretical background

Innovation is a very broad word. For Innovation recognizes both the first light bulb invented by T.A. Edison (1879), as well as new product packaging (Podręcznik Oslo, 2005, p. 52). Although the innovation comes from the Latin word *innovatis*, meaning renewal, creating something new (Tokarski 1980, p. 307), in this age is regarded as a synonym for change for the better or simply change (Janasz, Koziół 2007, p. 11).

J.A. Schumpeter considered innovation to be the introduction of new products to be manufactured, or the improvement of the existing ones, the opening of a new market, the application of a new method of selling, the purchasing of or using new raw materials or semi-finished products, and the introduction of new organization of production (Schumpeter, 1960, p. 322). Focusing on the definition of the cited author, we can clearly see that innovations at that time were associated only with the activities carried out by industrial companies, which in the early twentieth century constituted the basis of the capitalist economy.

Business activity of companies operating at the turn of the twentieth and twenty-first centuries showed that innovation should be approached more broadly.

Nowadays, P.F. Drucker's definition seems to be more appropriate. Drucker writes that innovation is a change in the product design, marketing methods, the offered price, or in services rendered to the customer which permeate all spheres of a company's business activity, or a change in the organization and management methods (Drucker 1992, pp. 42-43). A. Farazmand also adapted a broad approach to innovation and says that innovation is a strategic instrument applied not only to build but also to expand the capacity of competitive enterprises. Innovation is the key to progress and to development in all spheres of society, government and technology (Farazmand 2004, pp. 5-8). Madhavan, in turn, argues that "innovation is inextricably linked to the identification and exploitation of opportunities to create a new product, service or process" (Zalewski, 2006, p. 16). Innovation can also be considered from the perspective of the ability to generate permanent, realization, exploration, implementation and dissemination of changes in various spheres of socio-economic life (Bal-Woźniak, 2012, p. 22).

According to M. Haffer (1998, p. 27), innovation is 'any change that under specific spatial and time conditions is perceived as a carrier of novelty concerning the outcome of material and immaterial cultures equally'. Innovation, therefore, covers a large part of all of the major changes taking place in enterprises. The broad approach is also presented by Barnett, who assumes that every innovation is a concept, an idea, an attitude or thing whose quality stands out among all the existing up to now (Borowski 2011, pp. 8-12).

One can say that innovations accompany every human activity and their characteristic is an element of novelty. However, not only the same innovation should be the subject of analysis conducted here, but also a company's innovativeness, since the company is a key intangible asset in building a competitive advantage.

Innovative companies are considered to be those that have the ability to create or imitate new products, are also characterized by the ability of continuous renewal of their portfolio, relative to changes occurring in the environment, and are capable of introducing efficiently new technologies and methods of organization that are necessary to meet the changing development goals. An innovative organization is distinguished by the following characteristics (Bogdanienko 2004, pp. 45-46):

- a clear overall vision possessed by managers responsible for organizational development,
- customer-oriented,
- a flat organizational structure and staff endowed with trust,

- encouraging the competition,
- possessing a system of performance-related bonuses.

A company's innovation is its ability and motivation to constantly seek and put into practice research findings, results of the work of research and development units as well as new ideas and inventions (Janasz 2008, p. 295). With a view to ensuring innovation, it is necessary to realize in appropriate time research and development undertakings and allocate to them substantial funding. It must be remembered that all staff should be engaged in and encouraged to participate in the innovation process, since they frequently become a source of new ideas or inventions.

Is the company which does not implement innovation able to survive under so quickly growing competition? Several years ago, it would have been possible. The introduction of innovation was the choice of only those whose aspirations reached a leading position in the global market. At present being innovative is a must as well as a condition for survival and development of any organization.

### 3. Methodology of research

The empirical studies, a fragment of which is presented herein, were carried out in the time period 2010-2011 within a research project entitled 'Intangible value as a hidden source of competitive advantage of hidden champions of the Polish economy'. The research was conducted by a research team of Nicolaus Copernicus University in Toruń within a research grant of the Ministry of Science and Higher Education no. N N115 008237. The main empirical part of the study was conducted in collaboration with the *Homo Homini Public Opinion Research Institute*.

The research process included the following steps:

- the main study in which the indirect measurement survey using the method of telephone interview (due to the length of the questionnaire and the complexity of the problem, the study was eventually carried out by means of computer-assisted telephone interviews - CATI, and was supplemented by questionnaire e-mails sent at the request of respondents);
- the complementary study which used the method of expert assessment in its correspondence version.

Altogether 71 deliberately selected companies were invited to participate in the main study. The process of sampling was a very challenging task. We did not establish any official list of companies that could be categorized as 'hidden champions'. Therefore, companies that could fulfill the eligibility criteria for a

Polish hidden champion had to be identified. For this purpose, a more profound analysis of secondary sources was made. Several months of searching for potential Polish hidden champions resulted in the identification of 71 such entities.

The research tool consisted mostly of closed multivariate questions with the possibility of supplementing the answers. The respondents indicated their choice responses options by putting the 'X' mark or developed their own hierarchy by giving assessments corresponding to their placement in the importance ranking.

Finally, the main study was attended by 41 Polish hidden champions, which accounted for 58% of the target sample. Such a high return rate was achieved by ensuring anonymity to the surveyed companies. The respondents were top managers – CEOs, board members, or managing directors.

The second stage of the empirical research, which is the complementary study, was based on the method of expert assessment in its correspondence version. Its purpose was to confront the results obtained from the main study which presented only the point of view of managers being in charge of the examined entities. The questionnaire was sent out together with a covering letter by mail and it contained nine open questions. All questions were designed to maximize the scope of the presentation of the problem analyzed. Experts commented the presented results of the survey. The eleven-person group was composed of individuals representing scientific and economic entities. The result of this work was pulling together the views of theoreticians and business practitioners.

For the purpose of the realization of the main research objective of the article, which is to evaluate the activity of innovative hidden Polish leaders, it was necessary to obtain data from the first stage of the empirical research. The verification of the below hypothesis was very helpful in the achievement of the main objective of the publication:

H1: Innovations that are most frequently implemented by Polish hidden champions are product innovations intended for the domestic or international markets.

#### **4. Innovativeness of Polish hidden champions**

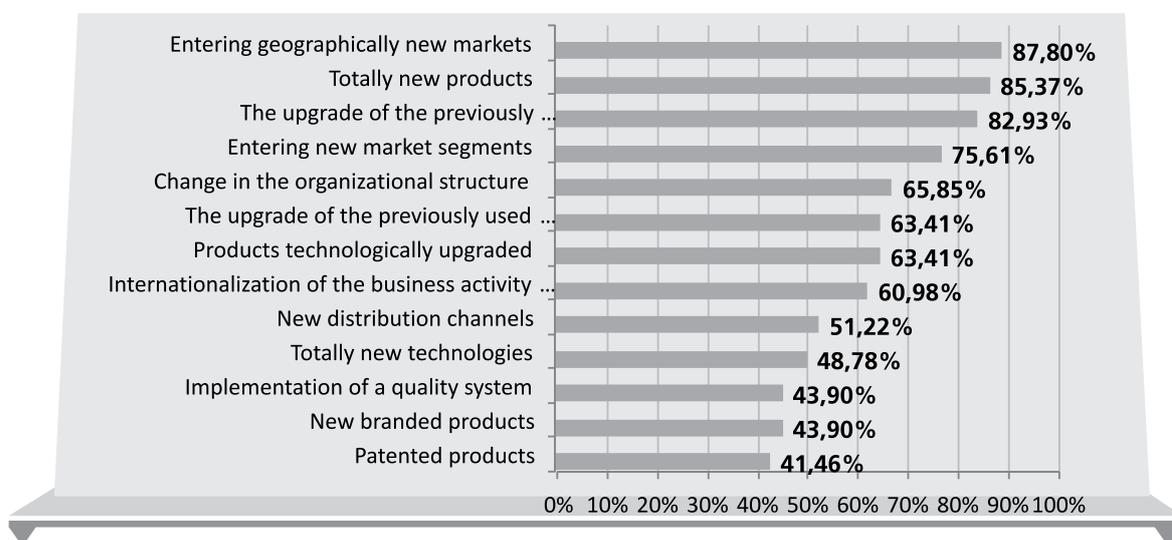
As many as 78% of Polish hidden champions see themselves as technological leaders. In their opinion this aspect of business<sup>1</sup> distinguishes them most from

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1 In addition to the specialization in a specific segment and high quality.

the competition. The innovative activity of Polish hidden champions is quite similar to that conducted by foreign hidden leaders. The surveyed companies treat innovation as changes permeating all spheres of the company's activity. They are associated not only with the product or technology, but also with processes, marketing, or broadly defined services.

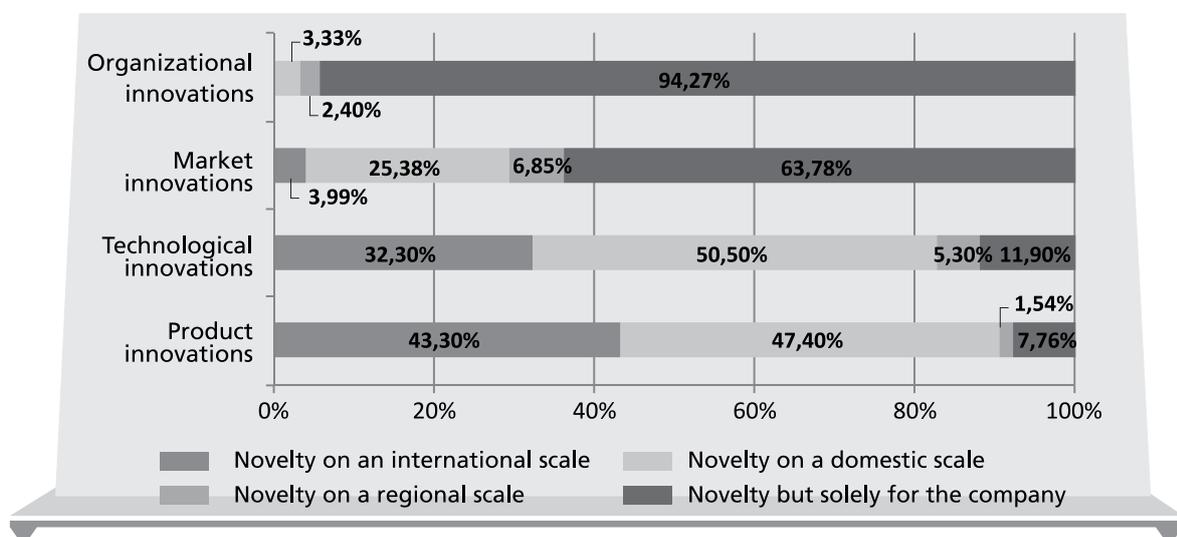
Polish hidden leaders implement in their companies a really significant dose of innovation. Having analysed the selected time period, namely the years 2007-2009, one company had on average almost 4.5 of product innovation, 2.14 of market innovation, 1.45 of technological innovation, and 1.1 of organizational innovation. Innovative activities of the respondents most often related to the launch of new products, the upgrade of the previously manufactured products, the upgrade of the previously used technology, entering geographically new markets (which testifies to their continuous development), entering new market segments, internationalization (which confirms the importance of globalization in their activities), or changes in the organizational structure. Innovations included almost all aspects of their business, starting from the sphere of production to the sphere of finance. Figure 1 presents the types of innovations that Polish hidden champions implement most frequently (the diagram shows these innovations which were indicated by at least 40% of the respondents).



**Figure 1. The most frequently implemented innovations of the surveyed Polish hidden champions**

**Source:** own study based on the outcome of the research conducted among the companies

The respondents were also asked to indicate the nature of the novelty introduced by these innovations. By classifying innovations into product, technology, market and organizational ones, Polish hidden champions stated whether the innovation was a novelty on an international, national, or regional scale, or a novelty but solely for the enterprise. The results clearly point out that the group of the surveyed companies are ones with a high innovative potential. More than 40% of the implemented product innovations were new on an international scale. Almost 50% were a novelty on the domestic market. The situation is similar with technological innovations. Every third technological innovation is new in the international arena, while just over 50% were novel at the domestic level. Market innovations were generally novelties on the regional scale (63.78%), while the organizational ones were novel but solely for the company - 94.27%. However, this fact is not surprising, because it should not be expected that innovations, such as changing the organizational structure or quality assurance systems, ought to become innovations at the national or international levels. This group of innovations generally refers to novelties introduced only to the sphere of organization of the company. The type of novelties introduced by the hidden champions of innovation are presented in figure 2.



**Figure 2. The type of the novelty of the innovations implemented by the surveyed Polish hidden champions**

Source: own study based on the outcome of the research conducted among the companies

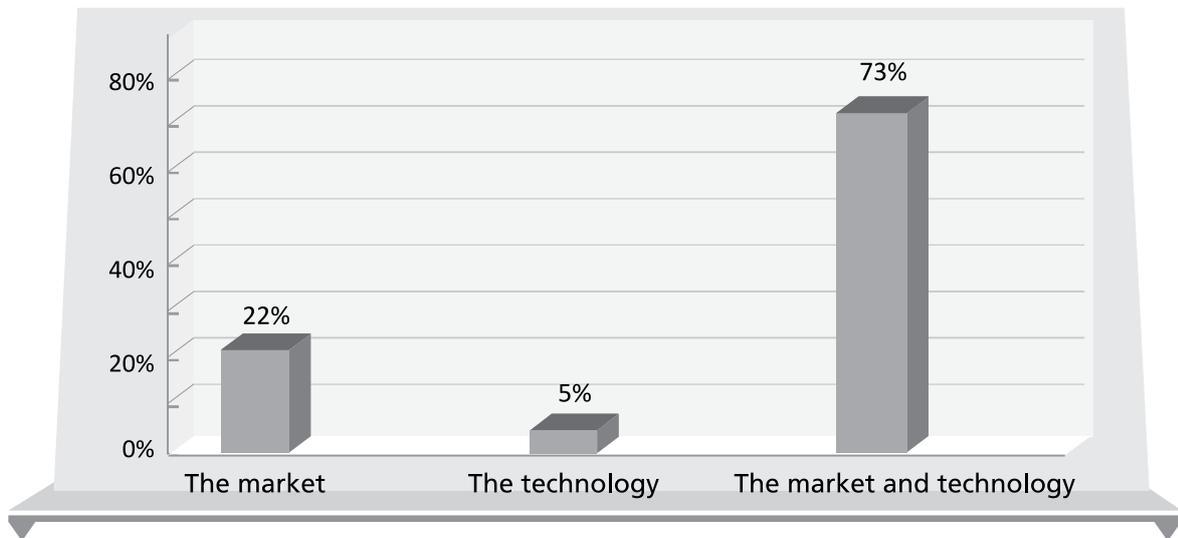
**Table 1. Revenues of the surveyed Polish hidden champions spent on research and development activities**

The percentage of revenue spent on R&D activities	The percentage of Polish hidden champions
Less than 2%	2.4%
2-4%	21.9%
4-6%	58.6%
6-8%	7.3%
More than 8%	9.8%

**Source:**-own study based on the outcome of the research conducted among the companies.

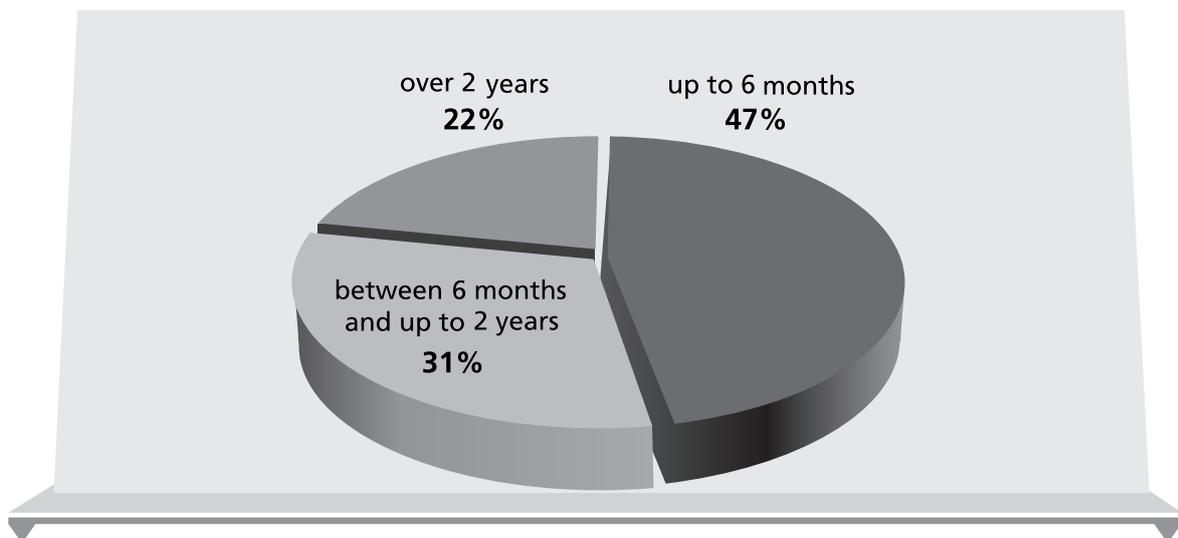
It also seems significant that a key source of the innovations implemented by the Polish hidden champions is the result of their own research. Such a response is not surprising, especially when looking at what portion of their income respondents spend on research and development activity (R&D). The average level at 6.05% is a really impressive result. It is worth noting that this indicator does not differ significantly from that of foreign hidden champions (5.9%), what is more, it is even slightly higher. Every tenth Polish hidden champion spends more than 8% of its revenue on R&D. Detailed information is contained in table 1.

Looking at the involvement of the Polish hidden champions in research and development activities, as well as at the level of technical advancement of their products, one can conclude that technology should be the major driver of innovation. However, both Polish hidden leaders and foreign ones are distinguished by the ability to correlate the two forces - the technology and the market. Customers' needs and the knowledge of the market go hand in hand with technical competence. Polish hidden champions focus on the product and the customer. As many as 73% of the surveyed companies confirmed that the drivers of innovation are, in their case, both the market and technology. For 22% of them this is solely the market, but only for 5% this is solely the technology. Details are shown in figure 3.



**Figure 3. The drivers of innovation of the surveyed Polish hidden champions**

Source: study based on the outcome of the research conducted among the companies



**Figure 4. Foreign students' length of stay in Poland**

Source: own study

Figure 4, in turn, presents the drivers of innovation of Polish and foreign hidden champions in comparison with large corporations. This picture confirms that the group of the companies analysed in the dissertation is distinguished by their ability to simultaneously use both the market and technology in the innovation activity. The bar chart clearly shows that the driver of innovation in large corporations is generally the market - 50%, followed by the sole technology - 31%, while for only 19% this is the market in combination with the technology.

## 5. Conclusions

Polish hidden champions realize that being a leader must relate to keeping ahead of rivals in the sphere of the technology used. The surveyed firms can be classified as highly innovative enterprises.

Polish hidden champions introduced in the analyzed period, an average of nearly 4.5 product innovation, 2.14 market innovation, 1.45 technological innovation and 1.1 organizational innovation. The vast majority of respondents (over 80%) indicated that they usually bring to market new products or upgraded products previously manufactured. Importantly, over 90% of new product innovation is a national or international level. The results of the research allow therefore to be concluded that there are no grounds to reject the research hypothesis speaker that usually implemented innovation activities hidden Polish leaders are product innovations at national or international level. More than 6% of revenue spent on R&D, high number of introduced innovations to a large extent, which is not only new to the national, but also international, and the constant search for customer needs and combining them with advanced technology are indicators that allow the conclusion, that the innovative activity of the surveyed companies is very high. In conclusion, it should be noted that the surveyed Polish hidden champions recognized the tremendous role of innovation and that their effective innovative activity underpins their success. The findings presented in the publication show that this anonymous and generally unknown group of hidden champions can become a role model even for those companies that currently only dream of being a leader in the global markets.

## Summary

### **The role of innovation in the business activity of hidden leaders of the Polish economy**

Globalization and internationalization of the economy compelled the implementation of innovative solutions in companies. Only

those organizations that regularly implement innovations have a chance to achieve significant market positions and survive in a competitive environment. The exemplification of such highly innovative companies are H. Simon's hidden champions. In this publication, there was an attempt made to assess the activity of Polish innovative hidden champions. The results obtained confirm that this specific group of companies places a strong emphasis on innovation. This is evidenced by even such aspects as the number of new innovations, very high amounts spent on R&D or continuous observation of the market in order to discover new needs.

**Key words:** *research and development, innovation, hidden champions.*

### **Streszczenie**

#### **Rola innowacji w działalności ukrytych liderów polskiej gospodarki**

Globalizacja i internacjonalizacja gospodarki wymusiła wprowadzanie rozwiązań innowacyjnych w przedsiębiorstwach. Tylko te organizacje, które regularnie wdrażają innowacje mają szansę osiągnąć znaczące pozycje rynkowe i przetrwać w konkurencyjnym otoczeniu. Przykładem takich niezwykle innowacyjnych firm są ukryci mistrzowie H. Simona. W niniejszej publikacji podjęto próbę oceny aktywności innowacyjnej polskich ukrytych mistrzów. Uzyskane wyniki badań potwierdzają, że ta specyficzna grupa przedsiębiorstw kładzie bardzo duży nacisk na działalność innowacyjną. Świadczą o tym chociażby takie aspekty jak liczba wprowadzanych innowacji, bardzo wysokie kwoty przeznaczane na działalność badawczo-rozwojową czy też ciągła obserwacja rynku w celu odkrywania nowych potrzeb.

### **Kluczowe**

**słowa:** *badania i rozwój, innowacje, tajemniczy mistrzowie.*

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