

Promoting Taiwan's high-tech SMEs to "Hidden Champions"

Project Investigator: Ming-Jen Lin

Collaborator: Minn-Tsong Lin, Elliott Fan

Since the turn of the century, the export momentum of German-speaking countries (in particular Germany, Dutch, and Switzerland) has been spectacular. Behind the macro performance, some international business studies point out, it is the small and median enterprises (SMEs) of this area that actually push the drive. These SMEs have unusual characteristics that the concept of "Hidden Champions" is accordingly developed to fit them. First, they are "Champions" because they are at least top three in their field. Secondly, although they are outstanding globally in niche market, they are "hidden" from consumers. This is not only because they choose to lay low-profile in order to better protect their competitive assets and to better focus on running business, but also because their products are for processing (equipments, components and services), therefore can barely recognized in end products and are relatively unknown to consumers.

Hidden Champions are full of inspirations for Taiwanese SMEs. In history and in reality, SMEs have been vibrant in pushing the growth of the Taiwan economy, greatly contributing to the Taiwan "Miracle" for its enormous jobs creation and equity effect. Although since the 1990s the industrial and export structure of Taiwan has been concentrating towards large enterprises, the latter has little, if there is any, upgrading achievement in the global economic system. With few exceptions, both profit creation and jobs creation of large Taiwanese enterprises are far from satisfactory. This is because, as people have found out, they have limited commitment to R&D. Instead, they tend to base their competitiveness on subsidies rather on technological sophistication. Such development challenges the existing theory that large enterprises are more capable than SMEs in technological upgrading; it also voids the rationale of government subsidies to large corporations. In short, the South Korean model does not work in Taiwan. Hidden Champions provide an alternative, and should suit better, for Taiwan's SMEs-centered industrial organization.

A closer look tells that there are two major competitiveness sources of the German-speaking Hidden Champions: one is continuous devotion to technological sophistication and innovation, the other is strong commitment to taking care of the employee they hire and the community in which they locate. While the first one is evident *per se*, the second one is however overlooked by Taiwanese policy makers and

entrepreneurs. Hidden Champions are high-tech - by nature and by strict definition, but are not limited in the information and communication technologies (ICT) that Taiwanese narrowly associate with high-tech. Instead, only when more than 4%-5% of revenue is routinely cast into R&D by a company, this company is qualified to be “high-tech”. When a company spends huge money in training its employees, it is only reasonable for the company to do virtually anything to keep the employees from leaving. When seen from this perspective, it becomes clear that in location Hidden Champions choose to stay away from potential competitors, i.e. to decline from joining industrial cluster in order to better safeguard their competitiveness assets from leaking. In doing so, they are strong locality-oriented and scattered in country side. Sense of community is thus developed among the enterprises – to attract talents and for their own interest in the long run.

Apparently, Hidden Champions’ long-term perspective and strong commitment to the locality do not benefit only themselves and their employees; they bring to the whole nation continuous innovations, urban-rural balance and clean production, thereby contributing to the overall development of nation. Such “holistic” approach sheds enormous light on Taiwan’s future.

This study aims first to explore the working mechanism of German-speaking Hidden Champions, and then seeks to establish a policy framework to promote domestic high-tech SMEs to Hidden Champions. The industries under investigation shall range from semiconductor equipments, to IC design, to bio-tech, to materials testing services, to software and services, to precision machinery, and to renewable energy.