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RESEARCH

ECONOMICS

## Austrian Mittelstand yields global corporate dominance

Austrian corporate dominance

Austrian Mittelstand corporations achieve global corporate dominance. Mittelstand corporations have a long and distinguished heritage with an emphasis on innovation, quality and high prices. Most Mittelstand corporations are family owned and managed. This management style provides greater managerial stability and allows corporations to develop a long term strategy to accomplish objectives. Most Mittelstand corporations focus on international trade to expand their corporate dominance. The concept of Hidden Champions emerges from internationally unknown Austrian Mittelstand corporations dominating niche markets.

Mittelstand corporations emerged from Austria's imperial society. Mittelstand refers to the middle estate between the aristocracy and peasantry. The free bourgeoisie of Vienna, Salzburg, Innsbruck, Graz, Linz, Bregenz and Klagenfurt utilised their education, skills and expertise to develop small corporations during the medieval period. Pewag, a multinational Mittelstand corporation began manufacturing chains in the Carinthian village of Brückl in 1479. The company manages more than 1,000 employees. The corporate headquarters is located in the Carinthian capital of Klagenfurt with plants in Germany, France, Russia, the United States of America and several other European countries.

Two economic principles are necessary to understand the nature of the corporations. The principles do not necessarily coexist. Mittelstand refers to small and medium enterprises. The Österreichisches Institut für Wirtschaftsforschung (Austrian Institute of Economic Research) defines small and medium enterprises managing fewer than 250 employees. The second principle is more pertinent to understanding Mittelstand corporations. Families own and or manage a large proportion of the corporations. Professor Georg Jungwirth examined 190 Austrian Mittelstand corporations dominating international markets and found the average corporation managed 405 employees, generated average revenue of €56 million and family ownership and management dominated corporate governance.

Innovation is the core factor in the corporate culture and contributes to corporate success. Expertise and intellectual capital provide the foundation for Mittelstand corporations. Outsourcing is avoided whenever possible. The corporations discover a niche and pursue the objective of becoming the market leader. LUF GmbH produced water pumps for Tyrolean

farmers in the 1930s and created unmanned firefighting machines in the 2010s. Mittelstand corporations have limited budgets and unlike public corporations cannot gain finance from financial markets. Mittelstand corporations focus on research and development allows them to surpass larger public multinational corporations.

Creating high quality goods and services are paramount. Mittelstand corporations aim to produce higher quality goods and services than rivals. Mittelstand corporations lack the external economies of scale larger multinational corporations possess. Quality rather than price competition is the objective. High quality goods and services allow corporations to demonstrate their technical brilliance and innovation. Several surveys with managers reveal more than 80 percent of corporations produce goods and services for advanced technology. Schiebel produces unmanned aerial vehicles also known as drones.

High prices are a characteristic of Mittelstand corporations. High prices reflect impeccable goods and services provided to customers. Exceptional talent, knowledge and expertise are required to create the goods and services available for a niche market. Pöttinger produces sophisticated and innovative agricultural machinery. Prices reflect the high quality of a technologically sophisticated machine. Mittelstand corporations provide goods and services to customers with the capacity to pay high prices.

Family ownership and management provide stable leadership and prosperity. Most Mittelstand corporations are privately owned by families. Family ownership allows corporations to pursue long term corporate objectives. Managers at a public corporation can be distracted from long term corporate objectives to pursue short term revenue and profitability to satisfy shareholders. Mittelstand management tends to be more stable and the length of tenure is greater with the next generation of the family succeeding the previous generation. Senior executives of a public corporation encounter demands from shareholders, internal politics and customers. It can create an unstable environment.

Professor Georg Jungwirth discovered 190 Hidden Champions throughout Austria. A Hidden Champion is a corporation ranked among the top three corporations in their international market. The corporate headquarters is located in Austria. The corporation generates annual revenue less than €200 million. The corporation is largely unknown to the public outside Austria. Research found 121 corporations generating annual revenue less than €200 million and ranked first in the world. The study found 37 corporations generating annual revenue greater than €200 million and ranked first in the world. There were 31 corporations generating annual revenue less than €200 million and ranked either second or third in the world. There were 12 corporations generating annual revenue greater than €200 million and ranked second or third in the world.

The province of Styria has the largest number of Hidden Champions. Styria has a rich and distinguished heritage of innovation, scholarship and technical expertise. The University of Graz, Graz University of Technology, University of Leoben and Graz Medical University provided the foundation for centuries of brilliant minds, inventors and entrepreneurs to flourish. Viktor Kaplan from Mürzzuschlag invented the hydropower turbine with

adjustable blades in 1913. Viktor Hess, Hans List, Franz Pichler, Ludwig Boltzmann and Nikola Tesla were other prominent inventors, intellectuals and entrepreneurs to emerge from Styria. Their success contributed to the large number of Hidden Champions. Research found 48 Hidden Champions located in Styria; 41 located in Upper Austria; 24 located in Vienna; 19 located in Lower Austria; 17 located in Vorarlberg; 16 located in Tyrol; 11 located in Salzburg; 10 located in Carinthia and 4 in Burgenland.

Corporations rely on international markets for organic growth, corporate revenue and profitability. Austria has a population of 8.6 million inhabitants. It is located in the heart of Europe. Mittelstand corporations have access to corporate customers in Europe, the Middle East, Africa, Asia, North and South America. 79 percent of goods and services created by Mittelstand corporations are sold to export customers. Some corporations are 'born global' by offering their goods and services to foreign customers very early in the evolution of their corporate cycle. Wintersteiger AG creates custom machines. The company generated revenue of €143 million in 2013. Exports constituted 90 percent of revenue.

Mittelstand corporations rely on corporate customers. A factor contributing to the public's lack of awareness of Hidden Champions is the nature of their business. Mittelstand corporations develop marketing campaigns for corporate customers. Mittelstand corporations tend to create goods and services for industry rather than consumers.

Senior executives of Hidden Champions are motivated by an extraordinary desire to succeed. Most Hidden Champions are family owned corporations or owned and managed by an entrepreneur. The founders and managers exhibit considerable tenacity and energy. The employees exhibit high motivation and identify strongly with the corporation. Greater decision making freedom at Mittelstand corporations is an important factor contributing to a highly motivated labour force compared to larger multinational corporations.

The pursuit of intellectual capital is vital to Hidden Champions success. Hidden Champions are more creative, productive and concentrate on research and development compared to other market leaders. Jungwirth discovered Hidden Champions have an impressive record of creating and protecting intellectual property. Austria's Hidden Champions create 9 patents for every 100 employees compared to 0.6 patents for every 100 employees at Siemens, Bosch, BASF and Volkswagen. The research and development budgets for Hidden Champions are modest compared to the larger German multinational corporations. The desire to surpass competitors is evident in the development of patents.

Austrian Mittelstand corporations have a distinguished heritage of dominating global corporate markets. Innovation, intellectual capital, a motivated labour force, creating impeccable goods and services and a desire to surpass competitors and assume industry and market leadership contribute to their dominance. Several thousand Austrian Mittelstand corporations dominate global markets ranging from agriculture to machinery to information technology. Hidden Champions receive recent attention due to their focus on corporate customers.