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BASQUE HIDDEN CHAMPIONS: INTERNATIONAL NICHE MARKET LEADERS WITH LOCAL ROOTS

EXECUTIVE SUMMARY

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About Orkestra:

With over 20 years of experience and knowledge, Orkestra-Basque Institute of Competitiveness (Deusto Foundation) is a leading research centre in Europe in regional competitiveness. Its mission is to promote competitiveness at the service of inclusive and sustainable wellbeing in the Basque Country. To this end, the institute works on a daily basis on transformative research projects with local and international stakeholders and provides rigorous analysis for decision making.

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Acknowledgements

The BBK Banking Foundation promotes a development model that reconciles economic competitiveness with social cohesion. Within this framework, business plays a central role as a generator of wealth, employment and innovation, and also as an agent linked to the local area.

In collaboration with Orkestra, the BBK Foundation promotes the Observatory of Hidden Champions, focusing on leading companies in highly specialised international niches, characterised by their internationalisation, innovative capacity and local roots. These companies are of particular importance to the competitiveness and wellbeing of the Basque Country.

The Observatory has a dual purpose. On the one hand, it seeks to generate strategic knowledge about these types of companies. On the other, it aims to foster a community of shared learning. In this way, it becomes a leading platform to inspire other companies, guide public policy and demonstrate to society how it is possible to grow whilst maintaining strong local roots and projecting competitiveness from the region out into the world.

This report is the result of the activities of the Observatory of Hidden Champion Companies. The authors include the following researchers at Orkestra:

- Mikel Gaztañaga.
- Ibon Gil de San Vicente.
- Bart Kamp.
- Edoardo Montagner.
- Ander Sánchez.

Furthermore, this work has been enriched by contributions from individuals who are also part of the team behind the Hidden Champion Companies Observatory. From Orkestra, Asier Murciego and Elsa Patús; and from the BBK Banking Foundation, Juan Luis Arriaga, Sonia Egea and Javier Fernández Monge.

Executive summary

Industry has regained its central role in Europe and the Basque Country. Growing geo-economic competition, the fragmentation of international trade and the renewed debate on strategic autonomy have brought industrial policy back to the forefront of the economic agenda. For industrial regions such as the Basque Country, this shift directly affects the ability to sustain skilled employment, advanced productive capacities and competitive positions in international value chains.

In this context, the 'Hidden Champions' companies, analysed in this report using the concept of *International Niche Market Leaders* (INML), occupy a particularly significant position. They are leading companies in highly specialised niches, with a strong international presence and low public visibility. Their 'hidden' nature stems from the type of activity they carry out: operating mainly in *business-to-business* (B2B) markets, offering other companies strategic products, technologies and components within industrial value chains, far removed from the end consumer and the general public.

They are usually companies with strong ties to the environment in which they were founded, collaborating with suppliers, technology centres, universities and vocational training centres. In this way, many combine global leadership with strong local roots.

The Observatory and the report on Hidden Champions

Within this framework, the Observatory of Hidden Champions, promoted by the BBK Banking Foundation and Orkestra, provides a stable foundation for gaining a better understanding of these companies, comparing their challenges and fostering shared learning. This report, "Basque Hidden Champions: leaders in international niches with local roots", is the result of the latest research into this phenomenon in the Basque Country. The study identifies:

- Basque Hidden Champions and characterises their contribution to the industrial and territorial fabric of the Basque Country, through the review of business databases, documentary analysis and comparison with other companies.
- the challenges that may affect their future leadership, drawing on specialist international literature and the dialogue dynamics developed with Hidden Champions within the framework of the Observatory.

The Basque Country: land of Hidden Champions

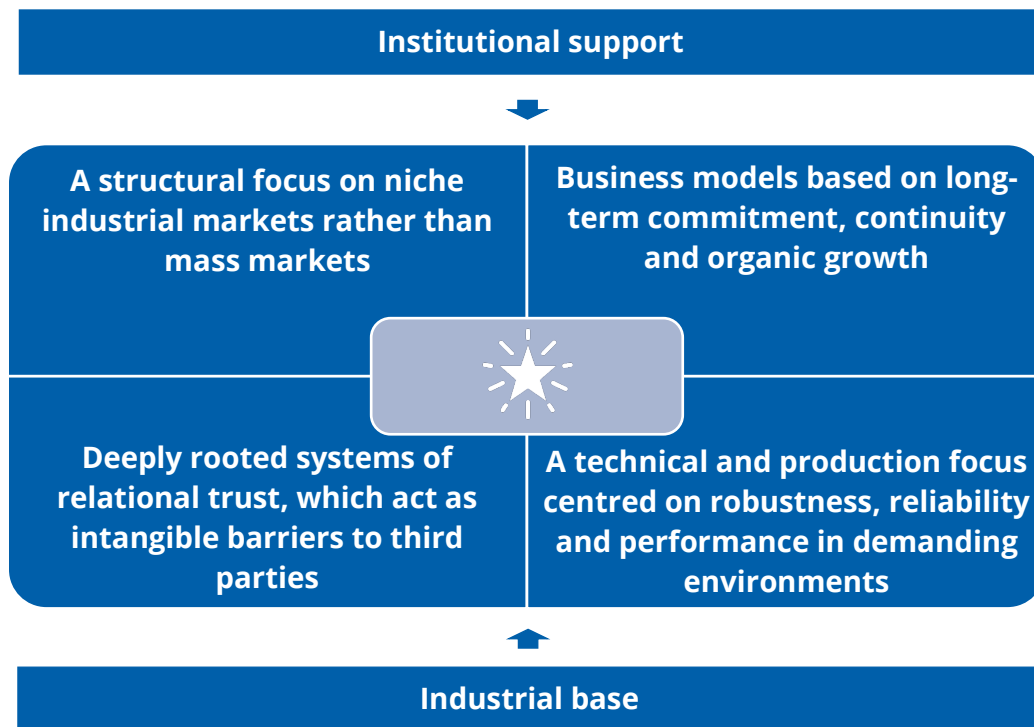
The presence of Hidden Champions in the Basque Country is neither a random nor a recent phenomenon. As in other industrial regions of Europe, particularly in Germany and northern Italy, their emergence and consolidation stem from a combination of historical, institutional and business conditions that have fostered specialisation and leadership in international niches.

The Basque Country offers a particularly favourable environment for this type of business. Its long industrial history has enabled it to accumulate manufacturing expertise, technical capabilities and business relationships that have adapted over time without losing continuity. In addition to this solid foundation, there has been sustained institutional support since the 1980s, aimed at strengthening industrial, technological and business capabilities.

It is on this basis that the distinctive features characterising a large proportion of the Basque Hidden Champions have been consolidated; these features can be summarised in four dimensions that help

to understand this regional logic. These companies tend to focus on specialised industrial markets, develop long-term models, rely on deep-rooted relationships of trust, and build a technical-productive culture centred on robustness, reliability and performance in demanding environments. These characteristics help explain why the Basque Country has an ecosystem capable of fostering the emergence and sustainability of leading companies in international niches.

Key factors for the proliferation of Hidden Champions in the Basque Country



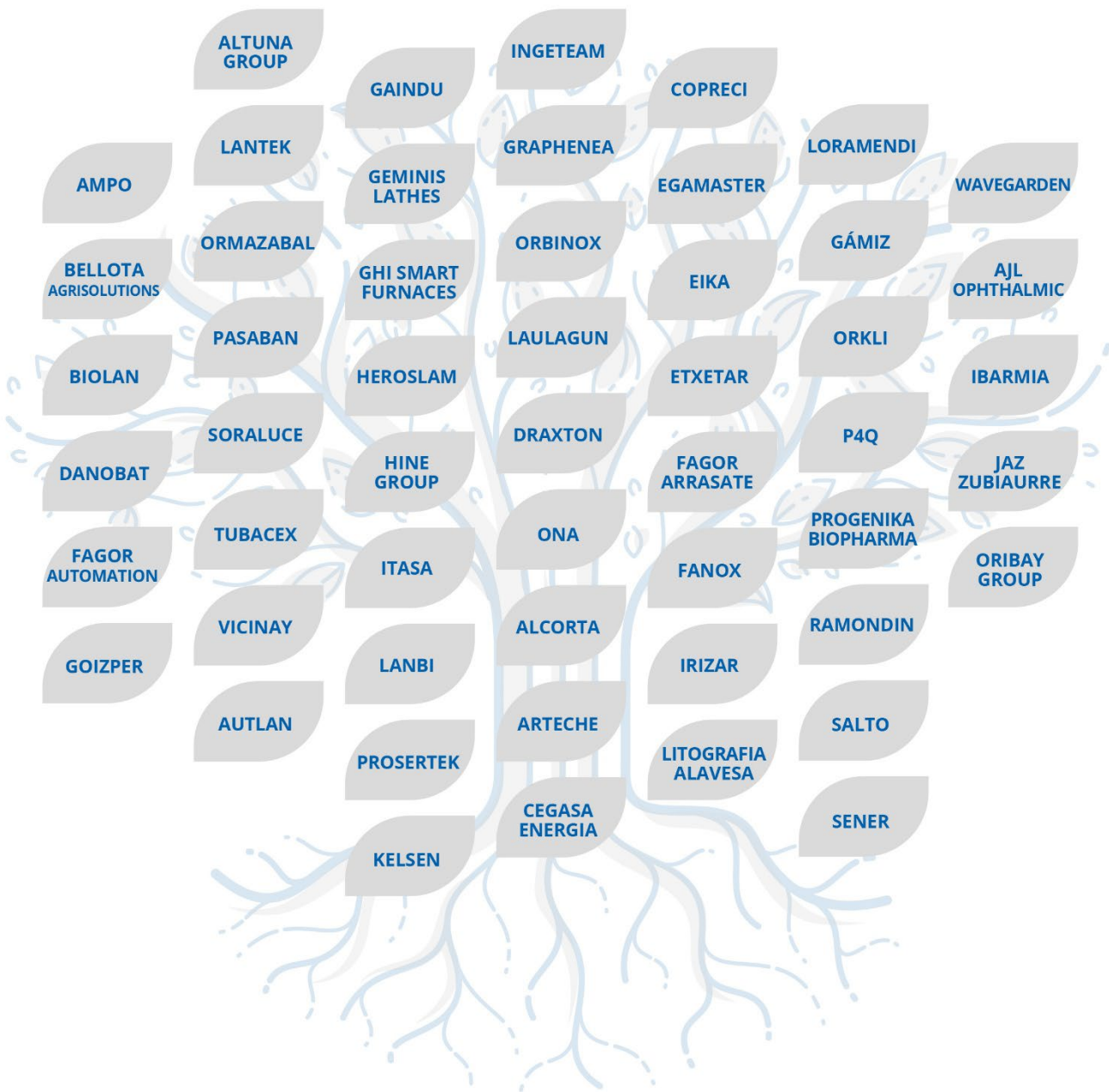
Source: Own elaboration

Hidden Champions: an industrial, internationalised and geographically distributed phenomenon

Basque Hidden Champions represent a distinct business segment within the Basque industrial fabric. These are niche companies with leadership in international markets, a distributed geographical presence, medium size and performance patterns associated with investment, productivity and value creation.

Fifty-three Hidden Champions companies have been identified in the Basque Country, although the phenomenon is likely to be more widespread due to the difficulty of detecting this type of business model through public sources.

Hidden Champions identified in the Basque Country



Source: Own elaboration



The analysis highlights the following results:

- **Widespread geographical presence.** 43 of the 53 companies (81%) are located outside the Basque capitals, demonstrating close links with local authorities and industrial corridors.
- **A predominance of medium-sized companies and those in the lower end of the middle market.** 21 companies have a turnover of between 10 and 50 million euros and 16 between 50 and 200 million.
- **Structural internationalisation, with a primary focus on Europe and the Americas.** 90% report commercial activity in the European Union, 82.5% in North America and 72.5% in Asia. Despite this, the bulk of sales is concentrated in Europe and the Americas. On average, these continents account for 46.5% and 35.9% of the value of international sales, respectively.
- **Business models characterised by investment and financial prudence.** Hidden Champions demonstrate a higher level of long-term productive assets, favourable operating margins and a generally low financial burden, consistent with strategies of sustained investment and prudent borrowing.
- **High productivity and value creation.** Overall, they exhibit higher levels of productivity and value creation than comparable companies.

Leadership that demands continuous adaptation

Hidden Champions face an environment of growing uncertainty and increasing demands, and although their historical strengths remain valuable, they do not guarantee their future leadership in the face of geo-economic, technological, commercial, financial and talent-related changes.

- **Geo-economic fragmentation is changing the rules of the game.** Trade tensions and the strategic use of trade, technological and industrial policy instruments by states and geo-economic blocs are reducing the predictability that for decades favoured highly internationalised industrial companies through exports.
- **China is evolving from a complementary partner into a systemic competitor.** For many companies, China remains a key market and a manufacturing hub, but its industrial development is increasing competitive pressure in higher value-added sectors and in areas close to the industrial core where many 'Hidden Champions' operate. Furthermore, through programmes promoted by the Chinese government such as 'Little Giants' and 'Unique Champions', Chinese companies are challenging the positions of European niche companies in their respective target markets.

- **Internationalisation is entering a more selective phase.** It is no longer enough simply to export. Companies need to combine commercial presence, international footprint and risk management without losing their local roots or decision-making centres.
- **Capital and ownership are taking centre stage.** Growth, investment and maintaining control over strategic decisions are creating new financing needs and new challenges regarding corporate structure and shareholder control, particularly in companies seeking to grow whilst maintaining stability, local roots and autonomy.
- **Talent and generational succession determine the continuity of their leadership.** Although their leadership in specialised niches should enhance their appeal as employers, demographic ageing, cultural shifts in industrial work and competition for talent make it difficult to attract specialised profiles. This pressure, combined with the challenges of generational succession and business growth, may increase the risks of ownership becoming detached from the local community and the loss of decision-making centres.

Recommendations

Strengthening the Basque ecosystem of Hidden Champions requires combining business efforts and regional capabilities in five areas of action:

- **Supporting companies in a more selective, sophisticated and deeply rooted internationalisation process.** Promoting strategies that combine exports and international expansion, market proximity and the maintenance of business roots and decision-making centres in the Basque Country, whilst also strengthening strategic intelligence tools and external support.
- **Strengthen their relationship with a local financial ecosystem connected to industry.** Facilitate access to capital and financing tailored to scaling, investment and business succession processes, strengthening instruments capable of supporting industrial projects without compromising stability, ownership and local roots.
- **Nurture the regional capabilities that enable leadership in niche markets.** Strengthen the connection between businesses, vocational training, universities, technology centres and other ecosystem assets, paying particular attention to technical talent, technological collaboration and the generation of applied knowledge.
- **Design flexible policies tailored to different business trajectories.** Avoid one-size-fits-all approaches and develop instruments capable of responding specifically to different sectors, business phases and internationalisation strategies.

- **Raise visibility without compromising protection.** Increase public awareness and recognition of Hidden Champions, whilst preserving the discretion and competitive advantages that characterise many of these companies.

At a time when Europe is turning its attention back to industry, the Basque Country possesses a valuable asset, but one that should not be taken for granted. The Basque Hidden Champions maintain international leadership, productive capabilities and deep-rooted local presence. Their future will depend on the companies themselves, the institutions and the ecosystem nurturing the conditions that make this leadership possible and supporting their evolution in a more demanding environment, just as they have done throughout their history.



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