Editorial

Lech Suwala*, Jan-Philipp Ahrens and Rodrigo Basco

Family firms, hidden champions and regional development

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Abstract: This editorial introduces the nexus between family firms, hidden champions, and regional development from an economic geography perspective. Family firms constitute the backbones of most local and regional economies, and some of them are even so-called hidden champions, which are global leaders in their market niches. At the same time, both entities are spatial sources of heterogeneity able to empower regions with difficult-to-imitate competitive and locational advantages that originate from the stickiness of their economic actors. It is mainly an empirical task to prove if this regional distinctiveness results from the structures and embeddings that family firms and hidden champions stand for (e.g., regional persistence and local rooting), and from the practices how these entities are owned, governed, managed (e.g., long-term business relations with [local] suppliers, customers, labour force, international excellence). By outlining three infant research directions on family firms and hidden champions from an economic geography perspective, this editorial frames the field, introduces and locates the contributions in this special issue therein, and calls for a spatially informed view on this rising cross-disciplinary field.

Keywords: family firms; hidden champions; mid-size firms; regional development; regional familiness

1 Introduction

This editorial elaborates upon the nexus between family firms, hidden champions and regional development from an economic geography perspective. Despite the importance of today's big businesses, big data, and big transitions, there is plenty of room to further investigate micro, small, and medium enterprises (MSMEs) in economic spaces. Especially, firms in the so-called middle market segment from traditional century-old Japanese dynasties, American family farms, and German Mittelstand to novel Shanghai and Silicon Valley elites have not received ample scholarly scrutiny in economic geography. The majority of these firms are family firms that constitute the backbones of most local and regional economies, and some of them are also so-called hidden champions, which are global leaders in their market niches.

Family firms and hidden champions form spatial sources of heterogeneity able to equip regions with difficult-to-imitate competitive and locational advantages that originate from the stickiness of their economic actors. This regional distinctiveness creates opportunities for regional development that may result from the structures and embeddings that family firms and hidden champions stand for (e.g., regional persistence and local rooting), and from the practices how these entities are owned, governed, and managed (e.g., long-term business relations with local suppliers, customers, labour force, and international excellence). However, to date these spatial features of family firms and hidden champions have mostly rested on reasonable expectations, anecdotal tales and/or descriptive findings.

The idea for this special issue originated from interdisciplinary conversations on research frontiers within the special interest group on "family business research" at the European Academy of Management (EURAM) 2019 annual conference in Lisbon. Conversations continued at several other conferences (e.g., 6th International Research Forum on Mittelstand – Exploring Entrepreneurial Ventures, Family Firms, and Hidden Champions 2020 in Mannheim, special sessions at Regional Studies Association virtual conferences in 2021/2022 and at the Global Conference on Economic Geography [GCEG] 2022 in Dublin). Through these discussions, we identified, inter alia, the nexus between family firms, hidden champions, and regional developments as a promising research field given the current

***Corresponding author: Lech Suwala**, Institut für Stadt-und Regionalplanung, Fachgebiet für Stadt-und Regionalökonomie, Technische Universität Berlin, Hardenbergstr.40A, 10623 Berlin, Germany, E-mail: lech.suwala@tu-berlin.de. https://orcid.org/0000-0003-3037-8963
Jan-Philipp Ahrens, Lehrstuhl für Mittelstandsforschung und Entrepreneurship, Universität Mannheim, Schloss Ehrenhof Ost, 68161, Mannheim, Germany, E-mail: jan-philipp.ahrens@uni-mannheim.de
Rodrigo Basco, Sheikh Saoud bin Khalid bin Khalid Al-Qassimi Chair in Family Business, American University of Sharjah, University City, 26666, Sharjah, United Arab Emirates, E-mail: rbasco@aus.edu

developments in family business studies and economic geography.

This editorial is structured as follows. In section two, we provide a brief overview of distinctive and integrating features of family firms and hidden champions, their ambiguities and ambivalences, and their economic dominance and excellence in most countries. Section three introduces contributions of the special issue and locates them within newly developing discourses, infant research strands, and their implications for regional development. Section four summarizes, concludes, and reflects upon the theoretical and practical contributions of the special issue to the field.

2 Family firms, hidden champions, and regional development

2.1 Delineating family firms and hidden champions

Defining family firms and hidden champions is not a trivial exercise. Let us start with family firms. Delineations not only emphasize ownership (e.g., family), governance (e.g., patriarchal leadership), culture (e.g., traditions), size (e.g., MSME), business strategy (e.g., long-run purpose), or market position (e.g., niche) among many other attributes, but they also notably vary depending on the rationale, context and purpose of research (Mandl 2008; Pahnke and Welter 2019; Schenkenhofer 2022). A widely accepted definition requires that a family firm "is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families" (Chua et al. 1999, 25). Hidden champions – for the most part also family firms – are highly innovative, above-average economically successful, mid-size leading, and export-oriented companies with a high production depth in a particular global market niche relatively unknown to the general public (this definition is a synopsis based on Deimel et al. 2021; Lang et al. 2019; Rammer and Spielkamp 2019; Schenkenhofer 2022; Simon 1992; Venohr & Meyer 2007). These attributions emphasize the fundamental and distinctive features of family firms and hidden champions and can be taken as the bottom lines.

By regional or, more precisely, spatial development as it happens at various scales (micro, meso, macro), we understand the various contributions and activities that family firms and hidden champions are accountable for in economic spaces. These efforts encompass a continuum that ranges from macro-economic impacts on GDP, regional productivity, employment, exports, or R&D investments, meso-economic encounters and embeddings considering innovation systems, innovative or creative milieus, clusters, and entrepreneurial ecosystems towards mirco-economic activities, practices and images that can be directly attributed to managers through creating, transforming, and allocating spaces. In total, this special issue addresses the peculiarities of family firms, hidden champions and their recursive relationships with spaces (e.g., locations, places, landscapes) and scales (e.g., local, regional, national, global) as played out in regional development (see also Basco et al. 2021a; Stough et al. 2015).

2.2 Ambiguities and ambivalences

Distinguishing between family firms and hidden champions is considerably more challenging. Since we are working at the crossroads between family firms and hidden champions, we have targeted the family-owned Mittelstand, mid-size firms or the middle market in particular (Kamp 2019; Schenkenhofer 2022). In this realm, family firms and hidden champions have often been treated as interchangeable (sometimes also linked to MSME, middle market or the Mittelstand) since they share similar characteristics (see Pahnke and Welter 2019; Rosinus 2016); however, newer studies also demarcate significant differences (see Lehmann and Schenkenhofer 2023; Pahnke et al. 2022).

There are various criteria to choose from when summarizing and distinguishing between family firms and hidden champions. These include, among many others: ownership, management, size, strategy, or the sense of belonging. We will neither resolve these ambiguities and ambivalences, nor deal with them at the appropriate length within the very limited scope of this editorial. What we will do instead is to highlight the value added from an economic geography perspective.

Let us showcase this complex tension utilizing Schenkendorfer's proposition according to "for the majority of cases, hidden champions are family businesses (…) what distinguishes them from (…) family businesses is their niche strategy (…) this insight illustrates why they should be studied against the background of the niche characteristic to best determine their nature. The analysis shows that the niche strategy determines a few specific business strategies of hidden champions (regarding e.g., internationalization, R & D investments, and innovation)" (Schenkenhofer 2022, 418). Although we generally agree with this proposition when approaching both entities from management and innovation studies, the contributions within the special issue show that from a spatially differentiated perspective the assumption does not necessarily hold true. Kalhor argues that internationalization is also a conventional strategy for (mid-size) family firms (Kalhor 2024). Rietmann's initial assumption that hidden champions are not strongly integrated in rural regional innovation systems (RIS) because of their international sales focus and technological specialization was relativized, especially when considering smaller family-owned hidden champions with headquarters in the region. In addition, Rietmann shows that hidden champions often rely on external R & D activities such as production or customer relations as sources of innovation (Rietmann 2024). This is consistent with the findings from Benz et al. that higher regional shares of R & D investment or, more precisely, R & D intensity were not correlated with a higher intensity of hidden champions in German regions (Benz et al. 2024).

Therefore, we acknowledge the prevailing definitional and demarcational heterogeneity in the respective academic discourse. Since we are pursuing an economic geography perspective that brings regional development to the fore, we will first present some aggregated and stylized numbers on the economic magnitude of (mid-size) family firms and hidden champions, and will then identify current and evolving discourses to which family firm and hidden champions contribute.

2.3 Economic dominance and excellence in most countries

There is evidence that family firms continue to account for the major shares within economies when it comes to the number of businesses, contribution to GDP, and employment around the (De Massis et al. 2018; Pongelli et al. 2021). In 2016, they were responsible for 85 % of world's companies, 70 % of global GDP, and provided 60 % of the world's jobs (FFI Institute 2017). On a country level, it has been estimated that family firms comprise 70–95 % of all registered companies, contribute to 60–90 % of non-government GDP, account for 40–60 % of all private sector jobs in most countries, and are the source of funds raised for 85 % of all start-ups (Davarzani et al. 2014; Mandl 2008; Samara 2021).

Our own database[1] largely confirms these numbers at the global level for mid-size family firms. Based on a sample of over 30 million at least mid-size firms (>€12 mio revenue, >€6 mio asset, >50 employees [two criteria had to be fulfilled] to delineate from small firms and self-employment) from 138 countries worldwide (threshold of >50 observations per country), we observe that 85 % of these firms are family firms.[2] In 116 out of 138 countries, these family firms constitute the majority of the firms in the sample. If we consider the remaining countries, two features are striking. In former Soviet republics (e.g., Uzbekistan, Belarus, Kazakhstan) with a strong and still centralized state sector, and in countries where firms hold representation offices or mailboxes due to access to special economic areas (e.g., Latvia for EU), supranational governments (e.g., Belgium), or tax heavens (e.g., Panama), family firms represent the minority of those mid-size and larger firms in the sample (see Figure 1).

Hidden champions are market leaders by definition and therefore epitomize economic excellence. Unlike venture capital-backed unicorns (i.e., start-ups that reach market valuations of more than one billion) and gazelles (i.e., which increase their revenues for each year by more than 20 %), both of which are often consumer-oriented and highly visible to the public, hidden champions' disruptive technologies are predominately concealed in the products and processes of other companies (Lehmann et al. 2019; Pahnke and Welter 2019). (Mid-size) hidden champions are an exclusive club – albeit numbers are rising – of roughly 3500 worldwide, predominantly highly innovative, family-owned mid-size firms, often found in rural areas, that employ between 750 and 5000 workers on average, realize 370–900 Million USD in revenues on average, and that generate those revenues mostly from B2B activities and exports in a specific global niche with high production depth (for an overview of databases and approaches to operationalization, see Hayter et al. 1999; Rammer and Spielkamp 2019; Schenkenhofer 2022; Simon 2012, 2022; Zirbes 2023).[3] Therefore, it is not the aggregate economic impact on the whole economy that make these entities interesting from a spatial point of view, but rather their individual efforts that stem both from their typically rural locations and the tension between local roots (employment, regional labour market

1 Our database runs the Atalanta Algorithm V28 based on Moody's Orbis data which comprises more than 400 million firms worldwide. The Atalanta Algorithm, developed by Ahrens et al. (2021), is a big data algorithm technology used to identify family firms within these firms by harnessing various criteria (see also Figure 1 and explanations).

2 It is straightforward to assume, that this share of family firms would be even higher if all types of family firms (in particular, small firms and self-employment) were included in the sample.

3 Consequently, databases are highly subjective, rely often on the self-declaration of firms to champion a niche, and are mostly custom-tailored for specific research purposes, with obvious consequences for the validity of empirical results. Moreover, as this idea originated in Germany, most samples are available from here and lead to a geographic bias (Benz et al. 2024; Pahnke et al. 2022; Schenkenhofer 2022; Simon 2022; Zirbes 2023).

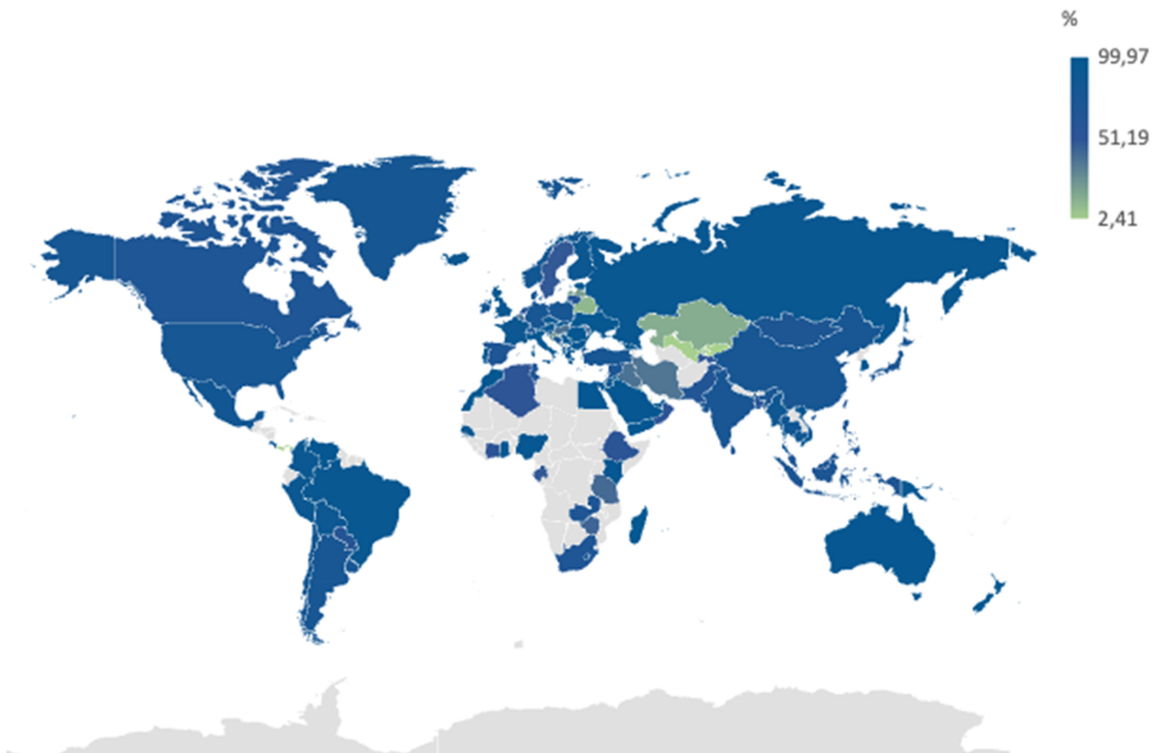

Figure 1: Dominance of mid-size (and large) family firms around the world (in %, >€12 mio revenue, >€6 mio asset, >50 employees [two criteria must be fulfilled]) from 138 countries worldwide (threshold of >50 observations per country, $n = 30.599.723$).
Note: Africa and Central America remain blind spots due to lacking or not enough data, based on Atalanta algorithm V28 (own elaboration). Our database runs the Atalanta Algorithm V28 based on Moody's Orbis data which comprises more than 400 million firms worldwide. The Atalanta Algorithm, developed by Ahrens et al. (2021), is a big data algorithm technology to identify family firms within these firms by harnessing ten criteria. Briefly put, these ten criteria relate to ownership (is the firm held by a small group of individuals or by firms which are themselves family firms) and ownership-management thresholds (i.e., is an significant owner also a manager), but also take into account linguistic inquiries and similarities (that rely on firm, owner, and top executive names), criteria linked to the firm's legal form (in some countries the family firm is a legal form), sector information, and an ancillary dataset of firms whose family firms status was recently hand-researched. Additionally, the algorithm takes into account all linkages among all firms across the world (calculated on a supercomputer with multiple Terabytes of random access memory), such that above factors can be applied throughout complex chains of ownership and management constellations (e.g., taking into account the parent firm, the parent of the parent firm, etc., to identify, e.g., linguistic similarities or notable owner-management or ownership constellations across them and beyond the level of the focal firm). Thereby, the Atalanta algorithm unveils family influence in nested and complex structures (e.g., if the family is a significant owner in the parent's-parent's-parent firm, but also manager at the focal firm), which would otherwise be unnoted (e.g., because the firm was held by another firm, seemingly a non-family firm), and more importantly for our purpose here, it makes family firms visible in a comprehensive way in big data structures.

ties) and global excellence (high-tech, international sourcing, and cooperation). This makes these entities bonding and bridging spaces at the same time (Kamp 2019; Lang et al. 2019).

3 Current research streams and contributions of the special issue

The nexus between family firms and regional development was mostly a by-product in past research (e.g., 'Third Italy industrial district literature' Pyke et al. 1990) and is still at an infant stage, with scattered publications and few systemic accounts in economic geography, despite a recent take off in adjacent disciplines (e.g., family business, innovation and management studies) (e.g., Amato and Patuelli 2023; Basco 2015; Basco and Suwala 2020; Basco et al. 2021a; Bau et al. 2021). The nexus between hidden champions and regional development (e.g., Lehmann and Schenkenhofer 2023; Simon 1992, 2012, 2022; Witt and Carr 2013) was almost absent in economic geography, and just recently regained attention beyond management studies (e.g., Lang et al. 2019; Liefner et al. 2024; Vonnahme and Lang 2021).

This editorial raises awareness and contributes to a systematization of this perspective. Both nexuses could significantly contribute to various discussions in economic geography such as “economic geographies of the (mid-size) firm” (e.g., Dicken and Malmberg 2001; Hayter et al. 1999; Taylor and Asheim 2001; Taylor and Oinas 2006; Taylor and Thrift 1983). In particular, the papers that constitute this special issue (Benz et al. 2024; Kalhor 2024; Rietmann 2024) add further insights on the following three research trajectories in economic geography and adjacent disciplines. It must be admitted that all three presented research trajectories are heavily dominated by family business studies scholars and ‘family firms’ as the main topic. Contributions from economic geographers are rather rare, but are very welcomed to build a more solid basis within the discipline.

The first research trajectory sheds light upon spatial distribution and development patterns (expansion, internationalization and globalization trajectories) (Audretsch et al. 2018; Bau et al. 2021; Block and Spiegel 2013; Kahn and Henderson 1992; Lang et al. 2019; Zirbes 2023) as well as quantifiable impacts on regional development of family firms (employment growth, export performance, productivity, etc.) (Amato et al. 2021a,b; Amato et al. 2023; Basco et al. 2021b; Ricotta and Basco 2021) or hidden champions (Audretsch et al. 2018; Lang et al. 2019). The article by Benz et al. (2024) addresses a fine-grained research gap in this realm, and scrutinizes both the spatial distribution of hidden champions and the effects of hidden champions on various regional development dimensions (regional economic performance, regional employment, regional innovation) through a multivariate analysis using a German dataset of 1645 hidden champions in 401 districts. With regard to the spatial distribution, the authors illustrate an East-West divide in Germany (at the expense of the East) and note that half of all hidden champions are spatially concentrated in only 55 districts. In this way, they align with results in pertinent literature (e.g., Ebert et al. 2022; Hauer and Ahrens 2022; Lang et al. 2019; Simon 2022). Concerning regional economic performance (measured as GDP per capita, median income, business tax revenues), hidden champions exert significant influences on median income and business tax revenues (through resident salaries and business tax payments to districts governments), whereas this cannot be confirmed for GDP per capita. This points to the fact that production facilities of hidden champions are also located outside of their headquarters districts and abroad (see also Vonnahme and Lang 2021). Concerning regional employment (measured by unemployment rate, trainees per 1000 employed), regional hidden champions intensity is associated with a meaningful role in employment and training both within and across districts. Although only mixed effects of hidden champions intensity on the regional unemployment rate were directly visible, significant indirect and total effects of hidden champions pointed to their wider role as major regional employers. Concerning regional innovation (as measured by R & D intensity, and patent intensity), the intensity of hidden champions only affected patent intensity. It seems that hidden champions often rely on non-R & D activities such as production or customer relations as sources of innovation. Moreover, hidden champions both impact the districts in which they are located, and exert sizable spillover effects.

The second research trajectory thematizes various types and modes of embeddedness as played out in formal and informal institutions (e.g., governance support, home region anchoring and spatial roots, family linkages, kinship ties, place-based networks and atmospheres, socio-spatial proximities in territorial (innovation) models) of family firms (e.g., Amato and Patuelli 2023; Bau et al. 2021; Berndt 2001; Lenz and Glückler 2021; Pittino et al. 2021; Ricotta and Basco 2021; Selcuk and Suwala 2020; Yeung 2001) and hidden champions (Lang et al. 2019, Vonnahme and Lang 2021). In this realm, the contribution by Kalhor (2024) provides a comprehensive literature review – based on a selected sample of 41 studies from 2010 to 2023 – on the complex interplay between institutional environments (formal and informal institutions), economic geography, and internationalization from a family business perspective. Kalhor shows that unsurprisingly institutional theory combined with other approaches is the main theoretical guiding line. Most studies are quantitative in nature and use indexes (e.g., WGI and OECD expressing governance modes) as proxies for formal institutions influencing family business internationalization that allow for comparative views. Interestingly, informal institutions (e.g., cultural distance, trust, and social networks) and their important role in shaping family firms remain significantly under-researched. Although an economic geography perspective is on the rise concerning geographical proximity, spatial influences, or the different internationalization dimensions (entry mode choices, location choice, the propensity for internationalization depth, and internationalization speed), we are far from a coherent understanding of economic geography-driven variables and the motives of family firms’ choices when embarking on international ventures. With her results, Kalhor underlines the call made by Bathelt & Glückler that a spatial perspective is necessary to understand how institutions (formal or/and informal) are embedded within specific geographic contexts that might vary significantly across regions on the one hand, and how the local institutional environments influence the internationalization efforts of family firms on the other hand (Bathelt and Glückler 2014).

The third research trajectory encompasses the various managerial tasks and practices (e.g., learning, innovation, and knowledge creation practices, locational decisions, cultural bridging and bonding, succession, curation and networks building, managing tension between local and global relations, and corporate spatial responsibilities) internal and external to family firms (e.g., Ahrens et al. 2019; Albers & Suwala 2021; Amato and Patuelli 2023; Berlemann and Jahn 2016; Grashof 2024; Henn 2012) and hidden champions (Graffenberger and Görmar 2021; Rietmann 2022). In this realm, the article by Rietmann 2024 takes a detailed look at hidden champions in four peripheral German regions and asks the question: what influences the integration of these firms in rural regional innovation systems (RIS)? Methodologically, Reitmann's approach rests on 57 qualitative interviews, nearly half with hidden champions (half of which were family firms) and half with supporting regional agencies (e.g., chambers of commerce) and actors (e.g., mayors). The initial assumption was that hidden champions are not strongly integrated in rural RIS because of their international sales focus and technological specialization. Integration into RIS is approximated via two subsystems (knowledge generation and diffusion, and knowledge application and exploitation) and checked against several firm-internal characteristics (ownership structure, firm size, organizational status, market position and industry, innovative capacity and technological focus, and firm leadership/management) and firm-external characteristics (location economies, urbanization economies, degree of peripherality of firm location, and technology and innovation policy). The results of Rietmann's research – which provide an interesting connection between hidden champions and family firms – show that ownership structure, firm size, and the organizational status are important firm-internal characteristics for RIS integration. Smaller family-owned hidden champions with headquarters in the region are on average more integrated in rural RIS and maintain stronger link to regional research institutions (e.g., dual university programs, specialized apprenticeships, endowed professorships, supervised theses, etc.) than larger and non-family based counterparts. Concerning firm-external characteristics, location and urbanization economies (e.g., greater resource availability and regional networks) of family-owned hidden champions with other family SMEs (through associations, R & D collaboration, of pooling of labor, cognitive proximity to the Hidden Champion's technological focus) were crucial for RIS integration.

4 Conclusion – family firms, hidden champions, and regional development

Both family firms and hidden champions can play key roles as drivers for spatial heterogeneity and regional development, as exemplified by their sheer spatial location, systems, distribution, their influence on regional economic performance, regional employment, regional innovation, their propensity towards different kinds of institutions and embeddedness, as well as their spatially bounded knowledge, innovation, learning, and responsibilities.

More fine-grained research – especially from an economic geography perspective – is needed to understand the complex spatial and scalar patterns of family firms and hidden champions beyond contemporary anecdotal attributions as being locally rooted or deeply embedded in economic spaces (family firms), or combining advantages of family firms' local embeddings with international excellence in a respective niche (hidden champions). It has to be admitted that the outlined research trajectories and selected literature cited in section three do not claim to be comprehensive, cannot be sharply divided, and are partly overlapping as individual studies touch upon multiple topics at once. In addition, there are various reasons to carefully distinguish between family firms and hidden champions. Nonetheless when dealing with effects on regional development, this editorial provides an offer and invitation to economic geographers and beyond to engage within this rising and cross-disciplinary field.

The spatially differentiated perspective on family firms and hidden champions is able to disclose sources of heterogeneity and the origin of spatially driven self-reinforcing mechanisms giving rise to hard-to-imitate advantages in regions (Suwala 2021). It is the principal task of empirical studies to investigate upon these broadly formulated circumstances. In the case of hidden champions, these regionally idiosyncratic advantages are explicitly combined with international ventures. Based on the elements of "familiness" that describes a unique bundle of resources and capabilities as a result of (social) interrelationships between the family and the firm in economic, management and sociological frameworks (Habbershon and Williams 1999) "hiddeness" that describes the niche to strategically capitalize on not known to competitors (Simon 2012), we are extending these ideas towards the relationship between the family firm/hidden champions and spatial and/or scalar frameworks, identifying regional familiness (Basco 2015) regional hiddenness, spatial familiness/hiddenness, and/or family/hidden spatialities (Basco and Suwala 2020, 2021) as a promising field of research in economic geography.

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