Hidden Champions of Hungary

Miklós Stocker and Péter Szlávik

Overview

Official name:	Hungary
Type of government:	Parliamentary Democratic Republic
Population in 2011:	9,971,727
Land area:	90,530 km^2

History

1920	After the collapse of the Austro-Hungarian Monarchy and the Treaty of Trianon, Hungary loses 2/3 of its territory and more than half of its population.
1940	Hungary joins World War II.
1945	At the end of the war, Hungary loses its regained territory.
1949	Hungary becomes a People's Republic under the influence of the Soviet Union.
1989	Hungary becomes a republic
1999	Hungary admitted to NATO
2004	(May) Hungary is one of the 10 new states to join the EU
2011	(January) Hungary takes over the EU presidency.

Hungary has approximately ten million inhabitants living in an area of 90,530 km^2. According to World Economic Forum data, Hungary is in 46th

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P. McKiernan and D. Purg (eds.), *Hidden Champions in CEE and Turkey*,
DOI 10.1007/978-3-642-40504-4_14, © Springer-Verlag Berlin Heidelberg 2013

position in the GDP per capital ranking and 52nd position in the Global Competitiveness Index ranking. GDP per capita in Hungary was $ 12,635 in 2009, the average growth rate for the period between 1999 and 2009 has been around 2.6 % (more economic indicators for the country are shown in Exhibit 1).

1 Introduction: Context

For a better understanding of the current economic structure of Hungary, we need to look back a few decades. For most of the past one and half century[1] the country was -part of a larger economic area: first the Austrian-Hungarian Empire, then—after the Second World War—the community of socialist states, and finally the European Union.

Hungary's industry structure changed significantly in the 4 decades following the Second World War. The country was a founding member of COMECON (Council for Mutual Economic Assistance), an economic organization led by the Soviet Union. One of the crucial policies of that organization was the specialization of its members. It meant that selected industries were developed, while others (e.g. automotive) withered. Pharmaceuticals, the chemical industry, food processing, agricultural machinery, bus production, and electronics, had a special focus. We will see that some of the Hungarian hidden champions (HCs) are connected to these industries.

During its economic and political transition, Hungary invited foreign investors and sold many of its leading industrial companies to corporations, such as General Electric, Electrolux or Michelin. The privatization was followed by an period of intense investment during which some of the world's leading companies—General Motors, Philips, Nokia, Samsung, TEVA, and others—established a presence in the country. They were motivated by the country's well-educated, experienced workforce and its industrial tradition, and other factors, such as salary level, infrastructure and investment incentives. In 2009 the contribution of large companies to the added value was 49.7 %, which was 18 % higher than the EU average of 42.1 % (Román 2009).

The last 20 years were also characterized by the development of Hungary's SME companies. These innovation-focused, small and medium-sized enterprises were either established as spin-offs of former state-owned firms or were formed on the knowledge base of these industries. Parallel to traditional industries, new sectors—IT services, biotechnology and green energy—gained importance. There are examples of both types of companies among the HCs that we introduce.

Hungary has a long tradition in the field of innovation. Many famous researchers and innovators have Hungarian origins, for example T. Puskás, J. Neumann, L. Bíró, and E. Rubik. Companies with an innovative focus have always had prestige in Hungary. We will see that the HCs discussed in this study also have

[1] The exception is the period between the two world wars.

Exhibit 1 Core economic indicators from Hungary

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP per capita (current $US)	4,713.54	4,542.72	5,175.03	6,535.29	8,247.00	10,084.52	10,936.95	11,173.57	13,534.71	15,364.68	12,634.55	12,863.13	14,043.66
GDP per capita growth (annual %)	3.49	4.50	3.95	4.80	4.15	5.03	4.17	4.06	0.27	1.07	−6.65	1.49	1.99
Long-term unemployment (% of total unemployment)	49.40	48.90	46.50	44.80	42.20	45.10	46.10	46.10	47.50	47.60	42.60	50.60	n/a
Foreign direct investment, net inflows (% of GDP)	6.85	5.97	7.48	4.54	2.61	4.20	7.71	16.60	51.90	48.62	−2.34	−16.07	6.88
GDP (current $US m)	48,255.01	46,385.59	52,720.97	66,389.49	83,538.37	101,925.73	110,321.71	112,533.15	136,102.02	154,233.54	126,631.68	128,631.63	140,029.34
Exports of goods and services (current $US m)	31,180.92	34,605.68	37,950.72	41,991.39	51,297.97	64,565.57	72,753.98	87,487.97	110,657.15	125,946.87	98,254.39	111,324.32	129,199.24
Exports of goods and services (% of GDP)	64.62	74.60	71.98	63.25	61.41	63.35	65.95	77.74	81.30	81.66	77.59	86.55	92.27
Merchandise exports (current $US m)	25,032.19	28,192.45	30,435.54	34,517.32	43,094.22	55,566.72	62,936.38	75,255.38	95,399.82	108,504.15	83,008.04	95,482.61	111,916.66
Merchandise exports to high-income economies (% of total merchandise exports)	91.62	90.93	90.16	89.94	89.59	88.88	85.15	82.50	81.01	79.78	80.84	79.24	n/a

(continued)

Exhibit 1 (continued)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Merchandise exports to developing economies in Europe & Central Asia (% of total merchandise exports)	6.22	7.22	7.64	7.51	8.32	8.72	11.57	13.53	15.19	16.81	15.55	16.43	n/a
Ores and metals exports (% of merchandise exports)	1.89	2.11	1.91	1.78	1.73	1.90	1.79	1.93	1.70	1.56	1.17	1.60	1.86
Agricultural raw materials exports (% of merchandise exports)	1.15	1.04	0.91	0.90	0.83	0.76	0.61	0.49	0.52	0.54	0.52	0.66	0.74
Food exports (% of merchandise exports)	8.58	7.32	7.78	7.28	7.08	6.58	6.24	5.72	6.44	7.15	7.86	7.45	7.85
Fuel exports (% of merchandise exports)	1.59	1.61	1.56	1.48	1.56	1.82	2.60	2.35	2.80	3.10	2.47	2.76	3.45
Manufactures exports (% of merchandise exports)	85.36	86.28	85.25	86.46	87.16	88.29	85.16	83.96	81.19	80.33	82.19	81.84	80.81
High-technology exports (% of manufactured exports)	22.67	26.53	24.23	24.93	25.76	29.05	25.83	24.12	23.79	23.30	24.94	24.24	n/a

Source: World Bank 2013

strong innovative characteristics. Unfortunately, the level of spending on innovation is well below that of other developed countries.[2]

The average size of the Hungarian HCs is smaller than the world average. According to Simon, a HC's average number of employees is 2,037 (Simon 2009 p.20). In the EU, companies are defined as "large" if they have at least 250 employees.[3] In Hungary, we could not identify a single HC in this category. Hungarian HCs are typically medium-sized enterprises according to their average number of employees.

The Hungarian HCs that we managed to interview are highly innovative companies. It is interesting to note that the typical leader of these companies has a strong personality. Although they have existed for more than 20 years, only two successions have occurred. All of the selected companies have based their operations on the knowledge of world-renowned Hungarians—scientists, engineers or economists. Leadership, motivation, knowledge, and research and development were all important elements mentioned during each interview.

All of these factors are necessary for success, but by analysing these sample companies we should also note that they all identified market opportunities and were brave enough to pursue them. Exhibit 2 provides core business data for the selected HCs, to be followed by a detailed analysis.

2 Four Case Studies

2.1 Cason Engineering Plc[4]

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Tel: +3623522100
Email: office@cason.hu
Web: http://www.cason.hu

Company Information

Industry:	Communications, metering, and monitoring technology
Year of establishment:	1992
Sales revenues in 2010:	Around €8 million

[2] According to the OECD Factbook of 2010, it was 0.97 % of GDP in 2008 while the OECD average was 2.28 %.

[3] Besides the number of employees, either the annual turnover is over 50 million euros or the total assets are over 43 million euros.

[4] http://www.cason.hu/CompanyInfo.aspx

Exhibit 2 Core business data for Hungarian hidden champions

Market definition	Revenues 2010 (€m)	Revenues 2000 (€m)	Employees 2010
Industrial system communication (e.g. data collection of Gas distribution)	8	2.3	80+
Pharmaceutical and Biotechnological usage of Cyclodextrin and its derivatives	1.5	1	37
Modular, network integrated technical testing stations for car diagnostics	5	3	100
Professional Data Recovery, Professional Ethical Hacking; Quality Assurance in Traffic Information Systems, Behavioral Analysis of Information systems	6	0.6	100

Source: The authors of the chapter

Sales Revenues in 2000:	Around €2.3 million
Average number of employees in 2010:	More than 80
Brain(s) behind the company:	Ferenc Szakács

2.1.1 Nature of Market Leadership

CASON provides a system solution for the industrial gas distribution and data-monitoring market, where it has the most advanced technology relative to other providers of similar products.

2.1.2 Nature of Competative Advantage

CASON has a huge technological advantage, which differentiates it from its competitors. Its solution is completely different in terms of product and technology. Accordingly, this innovation allows CASON to price its solution at around 1/10 of the price of its competitors.

2.1.3 Core Lessons Learned in the Path to Business Success

1. Create a niche and do not fear the large MNCs.
2. Focus on problem-solving and be highly innovative.
3. Have a vision and well-educated and motivated employees.
4. Push harder if you face contraction in your market.

2.1.4 Cason Engineering Plc: Hidden Champion

Can you imagine a gas leakage in a system several thousand kilometres long? How would you know where to find the leak? How would you calculate the exact quantity of the gas flow? CASON offers wide-area wireless communication with high levels of reliability, which provides you exactly these data. The company offers solutions for the oil and gas industry, electrical energy distribution, and water distribution. With CASON's multi-utility smart solutions, data metering in electricity, gas, or even water networks, can be effectively managed for both residential and industrial consumers.

CASON began its operations in 1992 as a dealer in laboratory equipment and a service provider. In 1994 it turned to automation as its focus shifted from commercial equipment to solving its clients' problems. In the mid-1990s, CASON developed several pieces of equipment in line with its problem-solving mentality, but only began to market them in 2000.

Since 2000 CASON has been a developer-producer company, and in 2002 it entered a new niche of wide-area industrial system communication. Its main activities include development, manufacturing, and sales of specialized hardware devices. The company is also engaged in industrial wireless data communication products; measurement and process control products; design, installation, and operation of industrial process control; and data communication and information systems.

As early as in 2000, CASON won its first innovation award: the Innovation Prize from the Hungarian Chamber of Trade and Industry. It was followed by the Hungarian Innovation Grand Prize in 2005 and the Microsoft Innovation Award in 2010. In 2006 CASON was among the 500 most dynamically growing companies in Europe.

CASON is a HC in the gas distribution data market, where the company has a huge technological advantage, which differentiates it from competitors. Its solution is completely different in terms of product and technology. CASON can price its solution at around 1/10 of the price of its competitors.

Actually, using a strict definition, CASON does not have a direct competitor. In broader terms, they compete with large companies like Siemens, ABB, Iskra or Elster. However, these companies solve customer problems in a different way, with a different technology.

CASON competes mainly in the Central Eastern European and the Western European market but is developing its Arabian and Asian market presence. It has also entered the North American and Russian markets. It became a market leader in the CEE region approximately 5 years ago and is continuously challenging the industry with its newly developed technologies.

CASON has quadrupled its revenue in the past 10 years; however the 2009 crisis hit the company hard and it registered its first contraction in turnover. In 2001 its exports accounted for only 1 % of revenue, but over the 10 following years, that figure rose to 40 %.

The average life time of CASON's products is 5–10 years. The company has yet to experience re-orders because its sold products have not reached obsolescence. Because of this position, CASON needs to find new clients, or identify new projects, year after year. Its major customers account for approximately 30 % of sales. The company's market is characterized by a long sales cycle. According to the CFO, the sales cycle of a significant project is around 2 years.

CASON's products are high-tech, and their development and production are very capital-intensive. The company has already run into capital constraints to growth; therefore it has redefined its business model to achieve higher growth in a potentially huge market. CASON puts an emphasis on three core processes—

development, assembly, and testing,—that seem to be the three most critical business processes in its value system.

In terms of development, CASON has special know-how provided by exceptional and very innovative specialists. This gives the company a cutting edge in the developmental phase of new products. Once the instruments have already been designed and developed, manufacturing does not offer a large proportion of added value as it is mainly repetitive; therefore the company has decided to rely on third party producers instead of investing in its own production facilities.[5] In the next phase of the value system however, CASON puts a huge emphasis on the assembly and testing of parts, as this can assure their high quality.

CASON's solutions are much more effective than those of its competitors because of many factors, such as high-level quality products, flexibility in production, and tailor-made solutions to meet customers' special requirements. To maintain this position, significant research and development efforts are constantly needed. CASON spends 10 % of its annual revenue on R&D. This is a considerable amount, taking into account the fact that this business is very capital-intensive. CASON does not use patents but creates a novel inflation approach instead. The company builds on a path-dependent nature of development where it has a lead on their competitors. When competitors follow and develop CASON's known technology, the company introduces a more efficient one, which gives it an efficiency advantage again. Sometimes CASON even inflates its own technologies in order to further increase the efficiency gap.

CASON could not follow this strategy without the vision of its leader, Mr. Ferenc Szakács, or the company's motivated and well-educated managers and employees. Their innovativeness, loyalty, and knowledge of markets are essential. If CASON can solve its capital constraints, growth opportunities will be almost infinite, and it can become a well-known champion.

What specific lessons can CASON teach us? Create a niche, do not fear the large MNCs, focus on problem solving, have a vision, be highly innovative with well-educated and motivated employees, and push harder if you face contraction in your market.

2.2 Cyclolab Research and Development Laboratory Ltd[6]

Overview

Address: Illatos út 7, 1097 Budapest, Hungary
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Email: cyclolab@cyclolab.hu
Web: http://www.cyclolab.hu

[5] Contract manufacturing has some good and reliable history in Hungary.

[6] http://www.cyclolab.hu/company1.html

Company Information

Industry:	Manufacturer of basic pharmaceutical products
Year of establishment:	1989
Sales revenues in 2010:	Around €1.5 million
Sales revenues in 2000:	Around €1.0 million
Average number of employees in 2010:	37
Brain(s) behind the company:	József Szeitli, Lajos Szente

2.2.1 Nature of Market Leadership

CycloLab is the only company in the world in the business of R&D and small-scale manufacturing of all-round cyclodextrin.

2.2.2 Nature of Competitive Advantage

The firm has more than 30 years of experience in cyclodextrin research, development and manufacturing. It has seized the cyclodextrin market at the right time and controls its whole value system, keeping other companies away from it. Because of this it has no direct competitors.

2.2.3 Core Lessons Learned on the Path to Success

1. Emphasize knowledge, leadership, research and development, and motivation.
2. Seize the whole value system if you are in a position to do so.

2.2.4 Cyclolab: Hidden Champion

Can you imagine pharmaceutical products that can be absorbed and take effect in your body much faster? With CycloLab's cyclodextrin products, several drugs are enhanced in this way. CycloLab can also develop solutions for lowering toxicity or even extend patent- protection. The company also develops solutions for the food, cosmetics, environmental applications, and agrichemical industries.

The foundation of the company goes back to 1992 when a leading Hungarian pharmaceutical, Chinoin, established CycloLab as its subsidiary. Prior to that, the company's team had worked as an organizational unit of Chinoin and had therefore gained significant experience. Around 1995 the company was taken over by the management through a successful management buy-out program. CycloLab was an independent company until 2008 when a Swiss company gained majority ownership, while the management remained a minority shareholder.

CycloLab was founded by Professor József Szejtli (Ph.D., D.Sc.) who acted as chief executive officer, and later as honorary president, until his death. He was author and co-author of over 250 scientific papers, over 200 conference presentations, six books, and over 100 patents. The total number of citations of his papers and books is over 5,000. He was awarded several national and

international awards (e.g. the Moet-Henessy award), and in 2003 won the Széchenyi prize, the highest science award in Hungary.

The company has also won some prestigious prizes, such as the Millenium Award of the Hungarian Patent Office in 2007, and the Hungarian Innovation Grand Prize in 2008. CycloLab has ISO (International Standards Organization) 9001:2000 qualifications and uses the cGMP (current Good Manufacturing Practices) quality system, both of which are fundamental requirements in this industry.

CycloLab can be defined as a HC as it is the only all-round cyclodextrin R&D and small-scale manufacturing company in the world. The firm's key personnel has more than 30 years of experience in cyclodextrin research, development and manufacturing, and continues the legacy of its high-profile founder, Professor Szejtli.

CycloLab has a very specific market and usually serves 80–100 % of world demand. These figures suggest an attractive business position; however this market is difficult because it is an extremely small niche. There are products for which the world's whole annual demand is only 2 g. In addition to its own production, CycloLab usually sells its research, development and manufacturing capability, which can support clients in patent-protection extension of existing drugs, or enhance drug attributes such as water solubility, stability, taste, lower toxicity, and more. Because of this service approach, CycloLab collaborates well with large pharmaceutical companies that produce original or generic medicine.

CycloLab has been a leader in its market segment for around 20 years. However, its presence cannot enlarge the market. The company has always had significant export activities. Ten years ago their proportion was 90 % while nowadays it is around 80 %. It is very interesting that local clients usually have an international parent company with whom CycloLab used to do, or still does, business.

Strictly speaking, CycloLab does not have any direct competition. Instead, it has strategic partners. When asked to name competitors, the interviewees mentioned some only in a broad sense. Yet, these companies are completely different from CycloLab; therefore they are not direct competition at all. Only university research institutions can compete directly with the company; however they usually do not have the same capabilities or experience. The main difference between CycloLab and its competitors is that the latter simply cannot do what CycloLab can.

Although knowledge, leadership, research, and motivation have been the main aspects behind the success of CycloLab, it is important to note that its timing and holistic approach were also crucial. CycloLab seized the cyclodextrin market at the right time and controlled its whole value system, preventing other companies from entering this niche.

The advertisement for CycloLab is also very interesting as its name spreads with its employees' scientific publications. CycloLab's team has so far published approximately 500 technical/scientific papers including conference presentations, and has filed over 100 patent applications. Although the company has numerous patents, it can use only a few of them actively as patents for longer periods are more expensive and do not pay back their costs.

CycloLab's main product is used instantly.[7] The product is in the growth period of its life cycle. It is interesting that CycloLab's managers do not think of their company as high-tech; however in comparison with others in this Hungarian group it is certainly a high-tech company.

CycloLab has had only two CEOs in its history: company founder, Professor Szejtli and Dr Lajos Szente who took over after his death. In this business, it is very important that the CEO have a scientific reputation because only this can make both the CEO and the company legitimate. The fact that even the CFO holds a Ph.D. in genetics, emphasizes the company's scientific orientation. According to its main profile, CycloLab spends around 80 % of its revenue on research and development.

CycloLab has been growing organically throughout its history; its equity has risen year by year, and today its percentage exceeds 90 %. Although the company has not suffered capital constraints to growth, the small size of the market has been a heavy impediment. Despite all research efforts, CycloLab has not been able to enlarge the market significantly.

What specific lessons does CycloLab teach us? Emphasize knowledge, leadership, research and development, and motivation, and seize the whole value system if you are able to do it.

2.3 Energotest[8]

Overview

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Tel: +3624501150
Email: energo@energotest.hu
Web: http://energotest.hu/fooldal

Company Information

Industry:	n/a
Year of establishment:	1989
Sales revenues in 2010:	Around €5 million
Sales revenues in 2000:	Around €3 million
Average number of employees in 2010:	100
Brain(s) behind the company:	Tamás Zentai

[7] As the consumers of the drug use it instantly.

[8] http://energotest.eu/index.php?lang=en

2.3.1 Nature of Market Leadership

Energotest is a rising leader in modular, network-integrated technical testing stations in the car diagnostics industry in the CEE region, with indisputable market leadership in Hungary.

2.3.2 Nature of Competitive Advantage

Energotest has redefined the technical testing station industry by developing a testing station with which buyers can produce more revenue by giving more services to their customers. Energotest has also developed modularity and network integration, and constantly develops its mechanical, electronic, and software products. Energotest was able to cut down the prices in the industry through their constant development, which has given the company cost leadership.

2.3.3 Core Lessons Learned on the Path to Business Success

1. There is a trade-off between financial capital and thinking.
2. To be successful, one should develop constantly, step by step, and treat employees like co-workers.
3. Be brave enough to enrich the company's products, and manipulate the profit position in the industry or value stream.

2.3.4 Energotest: Hidden Champion

Have you ever been to a garage to have your car's brakes or emissions tested, or for a regular examination? If you live in the CEE region, there is a great chance that the technical testing station used by your mechanics was a product of Energotest. Besides regular technical testing stations that company also develops unique ones for university research centres.

Energotest's foundation goes back to 1989 when its predecessor, a state-owned company, became near bankrupt and in the restructuring process its leaders found that their garage division was not welcome any more. The leaders of the division and their friends founded Energotest in 1990 with little financial capital, but with plenty of thinking capability and ambition.

Energotest's main problem throughout its history has been its undercapitalization. The company's owners always had to take this into consideration even when faced with other challenges. Energotest's CEO, Mr. Tamás Zentai, has always thought that there was is a trade-off between financial capital and thinking. As the company lacked financial capital, it had to overcome that impediment with more thinking power. Following this rule, Energotest always looked for markets where it could become a leader even with scarce financial resources. First, the company developed a component for technical testing stations, then its own testing product. In the next step, it developed a product group, later a system, and even an integrated system. Today Energotest has a cooperating modular, network-integrated, technical testing station for car diagnostics. Over 20 years the company has developed constantly to reach a radically redefined solution for a known problem in the market. It has not only constantly redefined its product, but also shifted the profit position in the value stream and completely obliterated its former main competitor.

Energotest places heavy emphasis not only on development but also on efficient energy usage and quality. Energotest introduced ISO 9001 in 2001 and the ABAS ERP system and geothermic energy supply in 2006. It has TÜV, NAT and GEA certificates.

Energotest is a HC for its modular, network-integrated technical testing stations in the car diagnostics industry. In a tight market definition, Energotest does not have any significant competitor; however, in broader terms its competitors are MAHA, Bosch-Beissbarth and Snap-on.

Energotest is mainly active in the Central Eastern European market and is developing its Western European and Russian markets. Because of its step-by-step policy, it began internationalization fairly late, only in 2007. Its share of the whole technical testing station market in the CEE region is approximately 15 %.

Energotest has practically obliterated MAHA, its main domestic competitor, as today MAHA has just 1/30 of Energotest's revenue in Hungary. The main factor behind Energotest's success is that it has redefined the technical testing station industry by developing a testing station that allows buyers to produce more revenue by giving more services to their customers. Energotest has also developed modularity and network integration, and constantly develops its mechanical, electronic, and software products.

The latest Energotest testing stations have changed the value stream strategically by creating new profit opportunities for their clients. With Energotest products, clients have a broader, more profitable service portfolio and can provide services that were previously further in the value stream. This seems to be a win-win-win situation; Energotest and its clients are more competitive, and car owners can save time and money. Only the shrinking independent service companies lose; they do not have any influence on the value stream. However, they could integrate if they bought into Energotest's testing stations.

Energotest has also cut prices in the industry and provided more services. It has also formed partnerships with fellow research institutions at universities, which gives them new market opportunities. They entered the Ukrainian and Russian markets mainly through university connections.

The average life span of Energotst's main products is fairly long: 12 years. During this period the company offers its clients a wide range of services, such as maintenance, calibration, software upgrades and training. Although these produce a smaller amount of revenue than the main products, they provide a constant cash inflow. The company's products are in the growth phase of their life cycle; therefore they can easily be sold even in existing markets. Constant development holds the products continuously in the growth phase.

Although development is an important part of Energotest's business and the company holds five or six patents, these are not key elements of their success. As the company continues to develop, it is constantly ahead of its competitors. This allows it to reallocate money and energy necessary for patenting towards new developments, strengthening the path of dependency. Most of the company's innovations are market-driven; however it also develops risk innovations that can provide opportunities in new markets.

Energotest's is a limited liability company. The main owner holds over 70 % of the equity. This proportion has been rising constantly throughout the years. As already mentioned, they usually experience capital constraints but they strive to enhance their capital position and grow conservatively.

Energotest's success is based largely on the leadership style of its top management. Its core values include long-term thinking, collaboration, and responsibility. The development of the co-workers is also top priority. The management treats all employees as co-workers. Mr. Tamás Zentai, founder and CEO, is a thinker and humanist-capitalist who expects performance but also provides feedback and reward in exchange. After 20 years of leadership, he is transferring his CEO position to his selected successor.

What specific lessons does Energotest teach us? There is a trade-off between financial capital and thinking. To be successful, one should develop constantly, step by step, and treat employees like co-workers. Be brave enough to enrich the company's products and manipulate the profit position in the industry or the value stream.

2.4 Kürt Information Security and Data Recovery Plc[9]

Overview

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Tel: +3614246666
Email: kurt@kurt.hu
Web: http://kurt.hu

Company Information

Industry:	Information technology and computer service activities
Year of establishment:	1989
Sales revenues in 2010:	€6 million
Sales revenues in 2000:	€600,000
Average number of employees in 2010:	100
Brain(s) behind the company:	Sándor Kürti

2.4.1 Nature of Market Leadership

Kürt is in the business of:

1. Professional data recovery
2. Professional ethical hacking

[9] http://kuert-group.com/ and http://www.kürt.hu

3. Quality assurance in traffic information systems
4. Behavioural analysis of information systems

In particular, Kürt has been the first in CEE in data recovery for the last 21 years, and has held CEE market leadership in the other three market segments for the last 4–7 years.

2.4.2 Nature of Competative Advantage

The core of the company's competitive advantage is supreme technology and an integrated, so-called "tool-people approach", involving considerable moral, educational and work-related investments in people. Because of this, the company has the highest success rate in data recovery and ethical hacking in the market.

2.4.3 Core Lessons Learned on the Path to Business Success

1. Have a strong product and develop it constantly.
2. Think about the long run and reinvest most of your profits (Kürt is a family business and there was never a question about this).
3. Make an ethical workplace where your people enjoy working and they will be motivated and give you the highest performance.

2.4.4 Kürt: Hidden Champion

Can you imagine what you would do if your PC's Winchester were damaged? What would you do without your important data? Kürt's data recovery solutions can recover data even from seriously damaged storage devices, whether broken, soaked, burnt, erased or unreadable. In emergencies, you only have to contact Kürt and it will recover your data. Kürt also helps companies to find potential threats in their information systems and secure them.

Kürt's name became synonymous with IT security and data recovery in the early 1990's. After its foundation in 1989, the company began operations by repairing hard disks and floppy disk drives, and its main asset became the knowledge of its specialists.

Today Kürt has more than 20 years of experience in developing solutions for information security and data recovery. Its past experiences and the work of its highly innovative experts have made Kürt one of the leading data-recovery companies in the world.

Each year, Kürt successfully solves around 2,500 data recovery tasks with its in-house developed technology, which is also sold in many countries across three continents. As early as 1994, Kürt won the Hungarian Innovation Grand Prize, followed by other awards, such as the Award for Business Ethics from the Budapest Klub in 2002, the Innovation Award from the Ministry of Information Technology and Telecommunication in 2003, and the Healthy Workplace Award from the American Chamber of Commerce in 2004. In 2006 Kürt was among the 500 most dynamically growing companies in Europe.

Dr. Sándor Kürti founded the company and is still its chairman. From the beginning, Kürt has been a family business, where the owners are thinking long term, reinvesting 80 % of their annual profit and thriving in an ethical workplace.

We can define Kürt as a HC in four markets, namely:

1. Professional data recovery
2. Professional ethical hacking
3. Quality assurance in traffic information systems
4. Behavioural analysis of information systems

Although the professional data recovery market is in a decline phase, the other three successful markets are in the maturity phase. All of Kürt's 22 years of existence have been marked by constant adaptation and development. If the company continues this approach into the future, it will enjoy long-lasting success, which can be founded on the existing customer base and market position.

Kürt has a dual management style: the founder-chairman and his vice president are responsible mainly for PR and branding while the CEO is responsible mainly for the business focus. The top management consists of six people and the organization is departmentalized by product groups combined with the supporting function in the staff. Most of the top managers hold business degrees. Technical degrees are also common.

Kürt's main sources of competitive advantage include its technological lead and a business model integrating people with their tools. These competitive advantages ensure development; in the IT business, today's technological leads become tomorrow's commodities. Thus it seems that the main driver of the company's competitive advantage is its capacity for continuous development.

In the last 10 years, Kürt has multiplied its turnover tenfold. However, there was a break point in 2005–2006 when the company's main technology became a commodity in the market. Kürt responded well to the challenge and became market leader with three other products within a few years.

IT security and data recovery are usually project businesses; therefore market share can vary significantly year by year. Kürt has 30–70 % market share in CEE, and approximately 20 % in Western Europe. Its main competitors are Kancellar.hu and Ontrac.[10] Occasionally the Big Four consulting companies (KPMG, PWC, Ernst & Young, and Deloitte & Touche) are also in the market. Kürt is currently developing its North American and Middle Easter presence.

Kürt has had an exceptional success rate in data recovery and the ethical hacking business, thanks to its well-educated and experienced experts. Kürt states that its high-tech business is not at all capital-intensive, but is very knowledge-intensive; therefore competence, motivation, PR, and image are the key elements of success. Kürt spends 20 % of its annual revenue on R&D to ensure its lead in technology and competence. It is interesting, however, that patents do not play a role in their success; the company owns only one patent. They regard patents as unimportant, which is usual in the IT business.

[10] Ontrac acquired all of Europe's Data Recovery companies, except Kürt. They tried to acquire Kürt as well; however the family rejected the offer.

As a family business, Kürt has a very high level of equity—70 %—and it has been constantly rising throughout their history. It has not experienced capital constraints to growth, but its growth policy has sometimes been conservative.[11]

What specific lessons does Kürt teach us? To be a HC in the IT business, the company should have a well-defined product, continue to develop its experts and products, build its PR, and reinvest its profit. It should keep finding new market segments as the business environment can change rapidly. Finally, we see that a successful company can be ethical as well.

Conclusion

Hungarian HCs largely correspond to Simon's general concept, although there are some important differences. Most of the lessons that Simon learned from the HCs that he studied transpire for the Hungarian ones, too. Leadership with ambitious goals, high-performance employees, and depth are certainly typical traits of the Hungarian HCs. It is interesting, however, that decentralization is not, as the Hungarian HCs are approximately 20 times smaller than Simon's average in terms of number of employees. It is well known from the management literature that smaller companies are more centralized.

According to Simon's third circle of lessons, innovation, focus, and globalization are important factors. This is true also for the Hungarian HCs, but closeness to customers is less so. The Hungarian HCs are very much technology or science-driven companies. Only Energotest reported that closeness to customers is important to it, and this is because its added value manifests itself in physical terms, in the testing station. In contrast, the added value of the other Hungarian HCs can be distributed easily because it is manifested in knowledge products—a chemical molecule, a programme code, or information—therefore physical closeness is unimportant.

In conclusion, the Hungarian HCs are small, highly innovative companies with a strong, centralized leadership. These companies employ well-educated or scientifically qualified employees and efficiently integrate their knowledge in company products to create value for their customers.

References

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[11] They would rather not expand than use external financing.