

Is there space for a ‘Hidden Champion’ in Hong Kong’s crowded banking sector? The case of Hang Seng

ABSTRACT

Drawing on the pioneering research of Hermann Simon and the lessons learnt from some 500 leading medium-sized German companies, a case is presented here for including the Hang Seng Bank as a ‘Hidden Champion’. Operating in Hong Kong, one of the World’s most fiercely competitive markets, the study provides evidence that the bank shares many of the core values and traits associated with these German companies in becoming a humble leader. In particular, it is evident that active leadership and the role of the founders play a significant part in the bank’s capacity to succeed. Its ability to carve out a niche in this market, i.e., among the indigenous Chinese people and provide added value to them has allowed the bank to thrive and leverage its well-established market position. In addition, innovating in other areas, such as establishing the Hang Seng Index and creating the Hang Seng School of Commerce (now the Hang Seng University of Hong Kong) represent novel and unique solutions that extends the bank’s brand equity. Also, in-line with other ‘Hidden Champions’, it is evident that the founders and the current senior management to-date have a strong affinity with their staff, creating an ideal work environment so they can nurture their skills and innovation, which at the same time generates employee loyalty, and thus allowing the bank to maintain low staff turnover. The study presents Hang Seng Bank as truly a ‘Hidden Champion’, as very little is known regarding the bank outside of Hong Kong.

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1. Introduction

In his pioneering book titled ‘Hidden Champions’ Hermann Simon drew on data from some 500 medium sized companies listed on the German Mittelstand. Typically, these companies tended to operate in business-to-business markets, interestingly had very low levels of public awareness, although they were often market leaders in niche areas that they served (Ecns, 2022; Simon, 2022). In referring to such companies, his book carefully pieces together certain characteristics that typify how these champions often operate. For example, he found that they: (1) set clear and ambitious goals, (2) define their target market narrowly, (3) combine such a narrow market focus with a global orientation, (4) stay close and interact with customers, (5) strive for continuous innovation, (6) create clear-cut competitive advantages for both their products and service provision, (7) rely on their own unique strengths and (8) strive to have more work than heads (Schenkenhofer, 2022). In brief, Hidden Champions are not purely medium sized businesses, they serve a particular niche market and often cater to the needs of such segments on a global reach.

‘Hidden Champions’ are often family run businesses, yet are somewhat distinct from other medium sized firms listed on the Mittelstand (Schenkenhofer, 2022). One factor that appears common among them is that they share a strong commitment to innovation in a bid to find more attractive ways to serve their customers (Venohr and Meyer, 2009; Yoon, 2013). They also tend to nurture a strong culture for continuous improvement, focus on long-term goals and foster high levels of employee engagement as they grapple to maintain their competitive edge.

Although academic research on ‘Hidden Champions’ has not tended to draw on theories to explain their operational traits, there is evidence that such research can further advance Organisational Theory, due to the rather unique characteristics. Moreover, due to their medium sized status, their organisational structures and operations have the potential to advance the Resource Based View (RBV) (Barney, 1991), as they are relatively nimble and need to thoroughly maximise their resources as a source of competitive advantage. Also, intertwined with RBV, the dynamic capabilities perspective is relevant as such forms respond to the changing conditions of the marketplace (Teece, 2007; Eisenhardt and Martin, 2000). It is also evident, that the ‘Hidden Champions’ aim to maximise their marketing and relational capabilities in order to leverage their position to succeed and maintain their market leadership position (Murray et al., 2011; Pham et al., 2017). Overall, research on the ‘Hidden Champions’ has the potential to make useful contributions to such theories outlined.

This study focuses on Hong Kong’s banking context, arguably one of the World’s most competitive markets and in addition to contributing to the theoretical advancements outlined above, the article will look to further our understanding beyond previous research on the ‘Hidden Champions’. Much of the existing literature has tended to draw on the work of Simon, stemming from German firms. While some international studies have been undertaken, they are relatively scant and many have tended, like Simon’s work to focus on manufacturing firms. To the best of our knowledge, very little has been concluded regarding businesses operating in Asia and particularly China.

To bridge the gap, this study is one of the first to consider a ‘Hidden Champion’ in a Chinese context and particularly in Hong Kong. Whilst most of the literature on such firms has tended to focus on manufacturing, this study provides a further dimension by analysing a ‘Hidden Champion’ in financial services, within the banking sector. The Hong Kong banking industry, arguably one of the more competitive sectors in the world, is an ideal and fertile ground for undertaking such research, to offer fresh insights on how a champion operates, survives and thrives under such competitive challenges. Perhaps this area has been neglected by academic researchers and somewhat under researched. Overall, it is felt that the study therefore has great potential to make significant contributions to both theory and practice.

2. Background: Hang Seng Bank

Born in Guangdong in 1900, Ho Sin Hang had a humble beginning and limited education. He started as a handyman and later became an apprentice at a gold shop where he gained valuable business skills. Recognising his abilities, the shop owner promoted him to assistant manager, providing him with valuable business skills. At the age of 24, he established his own gold and silver trading business and in 1926, he co-founded Wui Lung Ngan Ho¹ a Hong Kong dollar trading business in Guangzhou. In 1933, Ho Sin Hang, along with other partners, founded Hang Seng Ngan Ho in Hong Kong. The name “Hang Seng” has two interpretations: one meaning “ever-growing” (Hang Seng Bank, 2021) and the other being derived from the names of the ngan-ho Hang Hing and Seng Dai founded by Sheng Chun Lin and Lam Bing Yim respectively (Ip and Ho, 2022). Hang Seng Ngan Ho soon expanded its operations to Guangdong, Shanghai and other cities on the mainland.

During Japan’s invasion of China in 1937, the bank became the exclusive agent for the government’s exchange business, earning significant profits (Chambers, 1991; Ip and Ho, 2022). However, due to the Japanese occupation, Hang Seng Ngan Ho had to close in 1941 and reopened in Hong Kong after World War II. In 1949, the establishment of the People’s Republic of China and foreign exchange controls seriously affected the Hong Kong banking industry and Ho Sin Hang, as the bank’s chairman faced many challenges. In response, between 1950 and 1952 he embarked on several overseas trips to countries such as the USA, Canada, Japan, Malaysia, Singapore, South Africa, Cuba and European countries (Ho, 1969; Ip and Ho, 2022). Inspired by his experiences, he transformed Hang Seng Ngan Ho into a commercial bank and in December 1952, the bank was formally registered as a private limited company with an authorised share capital of HK\$10 million. Ho Sin Hang became the chairman, and the bank moved to a new property on Queen’s Road Central in 1953.

On 1 January 1960, Hang Seng Ngan Ho changed its name to “Hang Seng Bank” and opened branches strategically in commercial centres, new towns, and new housing estates (Ip and Ho, 2022). The bank focused on serving the Hong Kong public at large, as well as small to medium-sized enterprises. It provided generous credit options to SMEs, helping them grow and fostering customer loyalty. Over time, the bank became known as a “Neighbourhood Bank” and made property investments to mitigate rental pressures and benefit from land and building appreciation.

¹ Ngan-ho (Yinhao in Putonghua) also known by a variety of names, including Qianzhuang, or Yinpu, are private Chinese banks or money shops. Prior literature argues that Qianzhuang banks originated from the Ming dynasty, whereas other scholars find that their origin would be dated back to the Tang dynasty (Chen, 2000; Fu, 2000; Wilson and Yang, 2016).

By 1964, Hang Seng Bank had become the largest Chinese bank in Hong Kong and a strong competitor to HSBC. However, in January 1965, a banking crisis hit Hong Kong due to the dishonouring of a large US dollar cheque issued by Ming Tak Ngan Ho. The problem soon spread to other Chinese banks and Hang Seng Bank faced challenges despite its higher capital adequacy ratio. With support from HSBC, Standard Chartered and generous government incentives, the situation soon stabilised.

However, negative rumours surrounding local banks in March caused customers to cancel accounts, leading to significant withdrawals in April. Despite HSBC's support and demonstrations of cash supply, the bank suffered substantial deposit losses, amounting to HK\$80 million on April 5 and a total of HK\$200 million by early April. In the face of a severe banking crisis, Hang Seng Bank diligently explored multiple options to navigate through the situation. It carefully considered three proposals: seeking assistance from Chase Manhattan Bank, allowing the government to take over and close the bank, or seeking support from HSBC. After extensive discussions, Hang Seng Bank decided to sell a controlling stake to HSBC. The crisis ended promptly following news of the acquisition and Ho Sin Hang remained as Board Chairman until his retirement in 1983, then later became Honorary Board Chairman.

Hang Seng Bank ventured into the stock market in 1950, offering services for small investors. In 1969, Ho Sin Hang commissioned Stanley Kwan, the Head of Research at Hang Seng Bank, to create the Hang Seng Index (HSI), aiming to establish a Hong Kong equivalent to the Dow Jones (Kwan, 2009). This was eventually launched on 24 November 1969 and became widely recognised as the benchmark for the Hong Kong stock market. Ho Sin Hang also pursued philanthropic endeavours. He located an employee from the bank's Shanghai branch before 1949, who had a substantial sum in their account. The funds had grown to HK\$120 million by 1980, and Ho Sin Hang suggested dividing the money to support the employee's family, mainland hygiene, education and several Hong Kong initiatives.

In 1970, Ho Sin Hang established the S H Ho Foundation, which supported educational initiatives and charitable activities worldwide. He also advocated for business and banking training, leading to the establishment of the Hang Seng School of Commerce (HSSC) in 1980. HSSC aimed to provide an education for those underprivileged students who could not afford to pay for a normal tertiary education. Over time, HSSC evolved into Hang Seng Management College (HSMC) and later became the Hang Seng University of Hong Kong (HSUHK) in 2018. HSUHK has gained recognition and was listed among the top 200 worldwide on "Quality Education" and "Decent Work and Economic Growth" in the Times Higher Education University Impact Rankings 2021 (HSUHK, 2023). Ho Sin Hang's initiatives, including the S H Ho Foundation and the establishment of HSSC (now HSUHK), have positively influenced education and social development in Hong Kong. These efforts have provided opportunities for students and contributed to the welfare of the Hong Kong community at large.

3. Literature Review

Although research on ‘Hidden Champions’ was once considered scarce, in recent years there has been growing interest and attention given to this area of study (Rammer and Spielkamp, 2015; Schenkenhofer, 2022; Schlepphorst et al., 2016; Witt 2015). It was Herman Simon in the early 1990s who first coined the term ‘Hidden Champions’, to describe a significant number of relatively unknown but highly successful medium sized German companies that were listed on the Mittelstand. These companies typically had a strong focus on innovation, a commitment to quality as well as continuous improvement, and they frequently dominated niche markets on a global scale. These companies were often family-owned and they had long-term goals to succeed in the markets they served (Simon, 1990; 1992; 1996a).

Simon’s pioneering research of ‘Hidden Champions’ identified nine core characteristics of these companies. They tended to (1) set clear and ambitious goals, (2) define their market narrowly, (3) combine the narrow market focus with a global orientation (4) be close to customers in both performance and interaction, (5) strive for continuous innovation in both product and process, (6) create clear-cut competitive advantages in both product and services, (7) rely on their own strengths, (8) have more work than heads, and (9) practice leadership that was both authoritarian in the fundamentals and participative in the details (Schenkenhofer 2022, Simon 1996b).

In reviewing and assessing the ‘Hidden Champions’ literature, Schenkenhofer (2022) found they are often family-owned businesses that belong to the Mittelstand. He revealed that they were somewhat unique compared with other Mittelstand and family firms in the way their business strategies were developed to best serve their niche markets. Audretsch et al., (2021) identified an emergence of niche entrepreneurship occurring in national economies around the world and suggested that different national contexts may be more conducive to generating world-market leaders that pursue incremental innovation and niche marketing strategies. Because ‘Hidden Champions’ operate in niche markets, they often rely on specialised marketing and sales strategies (Brkic and Berberovic, 2013a, 2013b). As a result, such companies tend to focus on building strong relationships with customers, developing a reputation for quality and reliability, and leveraging word-of-mouth referral business. Many ‘Hidden Champions’ also exhibit at trade shows and industry events to promote their products and build relationships with potential customers.

One of the most important success factors that are common among such firms is their strong focus on innovation (Rammer and Spielkamp, 2015; 2019; Schenkenhofer, 2022; Venohr and Meyer, 2009; Yoon, 2013). They tend to invest heavily in research and development and are constantly looking for new and better ways to serve their customers. A deep understanding of customer needs is also critical for them as they grapple to anticipate their customers' needs before they arise. In response, they are often able to develop innovative products and services that meet such needs. Another important success factor is a commitment to quality. Niche markets are generally not profitable for large corporations as the economies of scale are difficult to achieve (Audretsch et al., 2018). Hidden champions are known for their high-quality products and services, and they are often able to charge a premium price (Schenkenhofer, 2022).

Other key success factors associated with these firms, include a culture of continuous improvement, a long-term perspective on business strategy, and high levels of employee

engagement. A culture of continuous improvement is critical as they operate in niche markets where competition can be intense. These companies constantly focus on improving their products, processes and services to maintain their competitive edge. Continuous improvement is therefore often embedded in the company's corporate culture and is supported through high levels of employee engagement. These companies are also known for their flexibility in adapting to environmental changes due to their dynamic and nimble organisational structures (Berghoff, 2006; Audretsch and Lehmann, 2016; Welter, 2018). This is facilitated by their lean and flat hierarchies, which enable quick decision-making and efficient implementation (Schenkenhofer, 2022). A case study conducted by Au et al. (2013) focused on a Hong Kong-based company, shedding light on trans-generational entrepreneurship. The success of this company can be attributed to its unwavering commitment to quality, effective governance, and management structures. Additionally, the founding family's visionary approach, encompassing a unique experimental system, was instrumental in sustaining the entrepreneurial spirit across multiple generations.

Having a long-term perspective for doing business is also a key trait of 'Hidden Champions'. They typically have a clear vision of where they want to be in the future and develop appropriate strategies accordingly (Berghoff, 2006; Audretsch and Lehmann, 2016; Schenkenhofer, 2022). They are not focused solely on short-term gains but instead aim to create sustainable growth over the long term. Moreover, high levels of employee engagement and creating the right corporate culture is critical for them. These companies tend to have a strong sense of purpose and mission that is shared by employees at all levels. They also prioritise employee development and provide opportunities for growth and advancement. This helps to foster a strong corporate culture that supports innovation, creativity and collaboration.

Despite their success, 'Hidden Champions' face a number of challenges and risks. One of the biggest challenges is increased competition (Venohr and Meyer, 2007). As more companies become aware of the 'Hidden Champions' characteristics, they may try to emulate them, thus intensifying competition in such niche markets that they serve. Other challenges include changing customer needs and the risk of becoming too reliant on a single product or market. Hidden champions also face the difficulty of maintaining their corporate culture and values as they strive to grow and expand (Schenkenhofer, 2022).

4. Methodology

In order to explore further the 'Hidden Champion' traits associated with the bank, a case study approach based on in-depth qualitative research was considered most suitable for examining 'how' and 'why' the bank operated as it did. Qualitative research is a method of inquiry that focuses on understanding social phenomena from the perspective of the people experiencing them (Islam and Aldaihani, 2022). Based on a number of interviews with key informants, the case approach allowed for an in-depth exploration of the research questions. It enabled the researchers to probe further, allowing them to obtain different perspectives on the bank's strategic directions. Qualitative research is particularly useful in exploring complex and sensitive issues, such as those related to the banking industry.

The data collection technique used in this study was semi-structured interviews, which allow for flexibility in the questions posed and ensures they are adequately addressed (Creswell, 2013). Interviews were conducted face-to-face, and the respondents were assured of confidentiality. Verbal and written consent was obtained from all the individuals.

Yin (1994) suggests that case studies should be analytically designed and a descriptive framework may often be suitable as the basis for the case. The interview questions were developed based on a thorough review of the 'Hidden Champions' literature. The interview questions were tested with two management professors to verify their appropriateness and the wording clarity. The pilot interviews proved useful to obtain feedback and suggestions for further improving the structure of the instrument.

A purposive sampling technique was adopted in this study. The approach is non-probability in nature and involves selecting participants based on their subject knowledge and expertise (Zikmund, 1984). In this study, the criteria for selecting participants were based on the themes relating to the core values and traits of 'Hidden Champions'. The sampling technique was used to ensure that the interviewees had the appropriate knowledge and experience to provide the necessary insights relating to the subject. Four key informants were approached and they agreed to participate in the study. These included the CEO of the bank, the Head of Communications, Head of Human Resources and a former Head of Retail Distribution. All but one of the interviews were conducted on-site and they typically took around sixty minutes to complete. Open-ended questions were posed to allow the interviewees to provide detailed responses. The researchers also used follow-up questions to clarify and expand on specific responses (Kabir, 2016; DeJonckheere and Vaughn, 2019).

Validity and reliability are essential considerations in qualitative research. To ensure the validity and reliability of the study, several measures were taken. Firstly, the research questions were developed based on a thorough review of other studies on 'Hidden Champions'. This ensured that they were relevant and appropriately grounded, based on the extant literature. Secondly, as previously highlighted, the interview questions were pilot tested to ensure they were clear and understandable. The pilot interviews proved useful for refining the questions.

Thirdly, data obtained from the interviews were triangulated with several other secondary data sources, such as bank information and literature, annual reports, plus other physical artefacts to ensure that the findings were consistent. Triangulation is a method of using multiple sources of data to increase the validity and reliability of the study (Yin, 1994). The use of secondary data sources allowed for a comparison of the interviewees' perspectives with the bank's official reports.

To ensure that the study adhered to ethical standards, several measures were taken. Firstly, informed consent was obtained from the interviewees via email before the interviews were conducted. At the beginning of the interviews, the researchers explained the purpose of the study and the procedures involved. Data obtained from the interviews was stored securely and only accessible to the researchers. The information was stored on password protected computers to ensure total confidentiality.

5. Findings: Hang Seng as a Hidden Champion in Hong Kong

Establishing clear and ambitious goals

After the establishment of the People's Republic of China in 1949, a lot of people fled to Hong Kong under the new regime. This increased the supply of manpower and capital for businesses in Hong Kong. The demand for housing, education and entertainment increased drastically. With the rapid expansion of business among Chinese merchants, traditional

banking services became inadequate to fulfil the banking needs of the environment (The Chinese Banks' Association Limited, 2023). During 1950 to 1952, Ho Sin Hang made several overseas trips to various countries to study and understand more about foreign financial markets and learn further regarding financial management skills and services offered in other countries. After the visits, Ho Sin Hang was determined to transform Hang Seng into a commercial bank. He then initiated a significant modernisation process in order to fully develop commercial banking business in 1953.

Hang Seng Bank's transformation into a commercial bank demonstrates its focus on innovation and its ability to adapt to changing market conditions. By recognising the changing business environment in Hong Kong and the inadequacy of traditional banking services to meet the evolving needs of the market, Hang Seng Bank underwent a significant modernisation process in the 1950s to develop its commercial banking business. This was a bold move at the time, as commercial banking was a relatively new concept in Hong Kong. However, Hang Seng Bank recognised the potential for growth in this area and took the initiative to develop its capabilities to meet the changing demands of its customers. This focus on innovation and a long-term perspective on business strategy has allowed Hang Seng Bank to remain competitive and relevant in the banking industry for over 90 years. The bank has continued to evolve and expand its services to meet the needs of its customers, including the introduction of online banking and mobile banking services in recent years.

Based on the primary research undertaken, there is ample evidence to suggest that the bank has a clear direction of where it wants to be positioned and how it can achieve this through its staff. This is initiated through the bank's 'purpose statement' which aims to positively influence employee attitudes and behaviour, i.e.,

"We share the dreams of Hong Kong people and serve our communities with pride. We provide best-in-class, trusted and friendly financial services to drive their success – today and for generations to come."

The statement was created based on input from the workforce at all levels, consolidating much debate and discussion to arrive at the finished article. To clearly communicate the message and achieve collective 'buy-in' among its stakeholders, the bank used its recent 90th year anniversary celebrations to promote this new statement.

The purpose statement is reinforced through four employee focussed pillars to help provide direction and support for the bank's staff. Pillar one encourages the workforce to be 'customer centric' in terms of assisting the bank's customers. The second revolves around employee 'growth and development' enabling staff to train and acquire new skills to help them in the future. The third relates to 'innovation', providing an opportunity for staff to further improve their literacy skills, as well as focusing on the future of banking – thus providing an opportunity for employees to commercialise ideas. The fourth pillar is concerned with 'sustainability' - hence the bank explores ways to engage with the community and aims to nurture youth in society, providing care and contributing to E.S.G. i.e., the environment, social and governance.

Define the market

The management of Hang Seng adheres to the main policy of focusing on SMEs and grassroots society. Historically, Ho Sin Heng had been working with customers and helping them undertake business in Guangdong province for many years. He understood SMEs' needs to access capital for expanding their businesses. He placed himself in the shoes of

the bank's customers and did not take advantage of their problems. In the mid-1950s, a small plastic factory located in a prime area defaulted on a loan of HK\$50,000. Ho Sin Heng did not take the factory as collateral, but instead paid a visit and suggested ways to improve production operations. In addition, he granted another HK\$100,000 low-interest loan for the owner to rescue the business (Ip and Ho, 2022).

The management strategy of Hang Seng Bank, focusing on SMEs and grassroots society, demonstrates its deep understanding of its customers' needs and commitment to quality. By prioritising the needs of small businesses and individuals in the community, Hang Seng Bank has established a loyal customer base and a reputation for being a responsible and trustworthy financial institution. The example of Ho Sin Heng's handling of the small plastic factory's default on a loan also demonstrates Hang Seng Bank's commitment to quality and its long-term perspective on business strategy. Instead of seizing the factory as collateral, Ho Sin Heng chose to work with the owner to improve the business's operations. This approach not only helped the factory owner but also strengthened the bank's relationship with the business and the community.

Today, Hang Seng Bank operates in an ultra-competitive marketplace. There are over 150 banks that function in Hong Kong. Many of these providers work in different spaces, serving various segments of Hong Kong's seven million plus population. Whilst many competitors focus on narrow segments of Hong Kong's banking sector, Hang Seng comprehensively provides tailored solutions to serve all segments of the market i.e., retail consumers and corporates. This equates to over four million customers of the seven million banking population. With the exception of 2021/22 due to the Covid-19 restrictions being in-place, the bank has benefitted from double digit revenue growth annually over the last decade. By prioritising the needs of its customers and taking a long-term approach to business, Hang Seng Bank has established itself as a trusted and respected financial institution in Hong Kong.

Combining a narrow market focus with a global orientation

Hang Seng prides itself on being Hong Kong's longest serving local bank. This is probably a key reason why the bank is ultimately a 'hidden champion', as outside Hong Kong, the bank is pretty much unknown. Whilst Hang Seng works exceedingly hard to provide tailor made solutions for serving its Hong Kong customers, the bank has no ambition to penetrate international markets or become a global player. There is evidence to suggest, however, that the bank is committed to serving Hong Kong customers, by following their footprints in venturing into the mainland.

Hang Seng Bank has now established some thirty branches in China, with around fifty percent of them being located in the Greater Bay Area neighbouring Hong Kong. The other branches are located in tier one cities including Beijing and Shanghai, again these were established to serve the needs of Hong Kong customers operating in the mainland. Further evidence of the bank's commitment to follow its customers saw the opening of another branch in Singapore. By expanding its branches, Hang Seng Bank has established a wider network to serve its customers. This demonstrates the bank's commitment to meeting the needs of its customers and its ability to adapt to changing market conditions.

Staying close and interacting with customers

In the 1960s and 1970s, Hong Kong's manufacturing sector thrived, with many owners originating from the nearby Guangdong province. Many of these owners did not have sufficient capital and the scale of their operations were quite small. It was difficult for such manufacturing companies to obtain finance from banks. Hang Seng was willing to provide financial support by issuing letters of credit and bills of lading. These customers later developed into large enterprises and were grateful to Hang Seng's assistance during this difficult period. The Chinese ethos of returning favours, such as replacing a drop of water, with a spring, prevailed. Repaying kindness with kindness was fully realised between Hang Seng Bank and its customers. Lee Quo Wei advocated that this group of individuals represent the majority of the bank's major customers (Sit, 1993).

In 1945, tycoon Cheng Yu Tung moved from Macau to Hong Kong and inherited the Chow Tai Fook Jewellery business from his father-in-law in 1956. He instantly started to invest in Hong Kong properties. He obtained finance from Hang Seng and became friends with Ho Sin Hang. In May 1970, Cheng Yu Tung, together with Kwok Tak Seng of Sun Hung Kai Enterprises Company Limited², and Ho Sin Heng established the New World Development Company Limited. Chow Tai Fook Jewellery was the largest shareholder and Cheng Yu Tung was appointed Managing Director. Ho Sin Heng was the Chairman until he retired in January 1982. New World Development Company Limited was listed on the Hong Kong Exchange in October 1972.

Li Ka Shing, another prominent tycoon, also had strong ties to Hang Seng. In 1950, Li Ka Shing started Cheung Kong plastics, which was named after the Yangtze River. When Li Ka Shing was running the plastic flower factory, he made an appointment to meet Ho Sin Hang. Ho Sin Hang was impressed by Li Ka Shing and considered him a potential client³. When Li Ka Shing moved from plastic flowers to property development, Hang Seng offered mortgage plans to residential property buyers to finance their purchases. Ho Sin Hang typically focused on SMEs and believed that after a small company evolved into a large enterprise, it would become a long-term customer of the bank.

The bank's relationships with prominent tycoons like Cheng Yu Tung and Li Ka Shing also demonstrate its focus on building long-term relationships with its customers. By offering mortgage plans to residential property buyers and providing financial support to Cheng Yu Tung's business ventures, Hang Seng Bank established itself as a trusted and valued partner for these prominent figures in Hong Kong's business community.

In the broader context of Southeast Asian ethnic Chinese capitalism, where hidden champions thrive, Hang Seng Bank exemplifies the evolution and adaptation of business and economic organisations within different institutional and political-economic conditions. This ethnic-centric mode of economic organisation provides a unique perspective on the dynamics of business organisations and comparative capitalisms. While globalisation and the rise of mainland China have influenced ethnic Chinese capitalism in Southeast Asia, it

² Sun Hung Kai Enterprises Company Limited was founded in 1963 by Kwok Tak Seng, Fung King Hey and Lee Shau Kee. Sun Hung Kai Properties Limited was later incorporated on 14 July 1972 and listed on the Hong Kong Exchange on 23 August 1972.

³ Hang Seng Bank, Wikipedia, <https://zh.wikipedia.org/zh-hant/%E6%81%92%E7%94%9F%E9%8A%80%E8%A1%8C>. Accessed on 17 June 2023.

also retains historically distinctive elements that coexist with the changing landscape. As a result, a hybridised form of ethnic Chinese capitalism has emerged, characterised by the continuous blending and morphing of traditional and new elements into a distinct business entity (Yeung, 2006). Hang Seng Bank's unwavering support for SMEs and its commitment to nurturing long-term relationships align perfectly with the traits of hidden champions within the context of ethnic Chinese capitalism. It exemplifies how businesses adapt and evolve within specific contexts, showcasing a harmonious blend of traditional values and contemporary practices.

Today, the relationship between the bank and its customers is very much two-way. On the one hand, the bank is highly dependent on its Hong Kong customer base, which represents over 80% of its business. However, on the other hand, its customers are very loyal. It is not uncommon for over three generations of family members to bank with Hang Seng and in the corporate world, business clients have been typically banking with Hang Seng in excess of twenty years. Based on discussions with senior banking personnel, it is apparent that the bank is working hard to protect the safety of its customers by investing significantly to provide cyber security. There was also evidence of the bank actively and promising to listen to its customers through continuous user research both on-line and via telephone. The aim being to identify changing customer needs and responding rapidly to solve problems. Overall, Hang Seng Bank's focus on supporting SMEs, building long-term relationships with its customers, and its commitment to responsible and trustworthy banking practices are key characteristics of a hidden champion.

Strive for continuous innovation

Ho Sin Hang set ambitious goals for Hang Seng to grow and become a market leader. In 1964, Hang Seng Bank was the largest Chinese bank in Hong Kong. Following the riots and subsequent acts of terrorism in 1967 and 1968, the Hong Kong economy began to recover and there was a large influx of refugees from the mainland. Among those people that fled to Hong Kong, many of them were rich capitalists. The rapid increase in Hong Kong's population brought with it a demand for real estate and services. During this period there was a growing appetite for investments and the stock market was active. The Hang Seng Bank had been active in securities since 1950 and all branches offered securities trading services for their customers. With a substantial increase in trade volume arising from a buoyant stock market, Ho Sin Hang observed the need to build a set of indicators to measure the performance of securities and to evaluate investments. He found it would also be useful for customers as a reference for trading stocks.

At that time, such an idea was considered unrealistic by senior managers of Hang Seng, as they thought it was a role more suited for large international banks. They were also sceptical about the market's potential reaction if it was compiled by a local bank like Hang Seng (Ip and Ho, 2022). Ho Sin Hang envisioned the index to be similar to the Dow Jones in the USA. He and Lee Quo Wei therefore convinced senior managers that if Hang Seng could successfully launch the index, the name of the bank would constantly appear in the media, which would be great publicity for the bank. Stanley Kwan, Head of Research at Hang Seng Bank, together with his team of seven staff created the Hong Kong version of the Dow Jones. On November 24, 1969, the Hang Seng Index became operational, and to-date has been the most widely quoted indicator of the performance of the Hong Kong stock market, thus creating global recognition for Hang Seng (Kwan, 2009). In continuing to pioneer and keep up with the changing times, further indices have been created, including

ones to track stock in the Greater Bay Area, the biotech sector and environmental industries (SCMP, 2021).

Hang Seng Bank's development of the Hang Seng Index demonstrates its innovative approach to financial services and its ability to pioneer new ideas and products. Despite initial scepticism from senior managers, Ho Sin Hang and Lee Quo Wei recognised the potential for a market indicator that would measure the performance of securities and evaluate investments. By creating the Hong Kong version of the Dow Jones, Hang Seng Bank established itself as a pioneer in the financial industry and gained global recognition. The continued development of new indices, such as those tracking stock in the Greater Bay Area, the biotech sector, and environmental industries, demonstrates Hang Seng Bank's commitment to innovation and its ability to adapt to changing market conditions. By staying ahead of the curve and offering new products and services, Hang Seng Bank has established a loyal customer base and a reputation for being a responsible and innovative financial institution.

As earlier mentioned, 'innovation' is very much on the agenda as one of the bank's four pillars. The growth of financial technology (Fintech) within the sector led the bank to establish its own 'Fintechubator' as a kind of innovation incubator centre for employees to commercialise ideas and test market new services. For example, in the last 18 months, the "Fintechubator" has produced at least two new services that have been successfully tested and launched in the marketplace. Over the last five years, the bank has benefitted significantly from this initiative, generating many new solutions for its customers. Overall, Hang Seng Bank's development of the Hang Seng Index and its continued innovation in the financial industry are key characteristics of a hidden champion. Its commitment to innovation and its ability to pioneer new ideas and products have established it as a respected and successful financial institution in Hong Kong and beyond.

Clear-cut competitive advantages

The early customers of Hang Seng were mainly from the local community and most of them were local Guangdong people. It was natural for them to look for a Chinese bank which spoke their language and shared their culture (Ip and Ho, 2022). Compared with British banks, such as HSBC and Standard Chartered, which served mainly upper class, large corporations and foreigners, Hang Seng earned a good reputation among the Chinese community. The philosophy of Ho Sin Hang in serving grass roots customers, locating the branch manager's office near the entrance and having branch managers greet customers all helped maintain close relationships (Sit, 1993).

To further consolidate the bank's position in Hong Kong society and to connect with ordinary people, Hang Seng encouraged the public to save and the bank even produced a "saving song" with simple words for easy memory and fun. Through continuously broadcasting the song on radio and television, and by sponsoring inter-primary school competitions on television for many years, the song became popular in society (Ip and Ho, 2022). Hang Seng also welcomed individuals to open personal savings accounts, allowing them to open such accounts with an initial deposit starting from just HK\$1. The bank also offered generous interest on children's accounts in a bid to encourage them to save. The policies were beneficial to public morality and helpful in expanding the bank's client base. Hang Seng therefore was very much viewed as an approachable bank in the public's eyes.

The bank is also highly committed to providing tailored services for both individual consumers or its corporate clients. The former is typically served via retail “Relationship Managers’ who are tasked with looking after the needs of consumers. At the corporate level and depending on the specific context, a team of Hang Seng bank staff often work closely with various personnel across different levels of organisations to make sure their banking needs are met.

The Coronavirus outbreak had a significant impact on the global economy and markets. SMEs naturally required more support. Hang Seng’s efforts in introducing offerings to SMEs, including extending payment periods for trade loans and deferring principal repayments, started almost as soon as the pandemic spread. Hence, it was rated as Hong Kong’s best bank for SMEs in 2021 (Asiamoney, 2021). Hang Seng’s brand value was ranked 107th globally in 2023 on the Brand Finance Banking 500. It was the highest ranking among Hong Kong banks (Brand Finance, 2023). In the top 10 of licensed banks in Hong Kong, DBS Bank, Hang Seng Bank, and HSBC recorded the top three largest net interest margins in 2022 (KPMG, 2023). KPMG analysed the improvement of Hang Seng, which they reported was largely driven by the increase in deposit spreads and the net-free fund contribution, which resulted from the bank’s proactive management of its assets and liabilities amid global interest hikes (Hang Seng Bank, 2022; KPMG, 2023).

Hang Seng Bank’s focus on serving grass roots customers, encouraging savings among the public, and providing support to SMEs during the COVID-19 pandemic demonstrate its commitment to responsible and ethical banking practices. By prioritising the needs of its customers, Hang Seng Bank has established a loyal customer base and a reputation for being a trustworthy and approachable financial institution. Its efforts to introduce offerings to SMEs during the pandemic, such as extending payment periods for trade loans and deferring principal repayments, reflect its understanding of the challenges faced by small businesses and its commitment to supporting their growth and development. This has resulted in the bank being rated as Hong Kong’s best bank for SMEs in 2021. Hang Seng Bank’s focus on encouraging savings among the public and offering generous interest rates on children’s accounts also demonstrates its commitment to responsible banking practices and its dedication to building long-term relationships with its customers. By prioritising the needs of its customers and the community, Hang Seng Bank has established itself as a respected and successful financial institution in Hong Kong and beyond. Overall, Hang Seng Bank’s commitment to responsible and ethical banking practices, its focus on serving grass roots customers, and its dedication to building long-term relationships with its customers are key characteristics of a hidden champion.

Rely on its own strengths

Having such a close affinity, due to the bank’s history of helping locals, it is well positioned to remain highly competitive in both Hong Kong and in the future, the Greater Bay Area of mainland China. The current political situation surrounding Sino-U.S. relationships is likely to be an obstacle for many international banks operating in Hong Kong to expand over the border into the mainland. Due to Hang Seng Bank’s history of supporting Hong Kong locals, as well as many of them originating from the mainland, the bank is strategically well-positioned to leverage on its past to successfully penetrate the greater bay market and potentially beyond.

Hang Seng Bank's ability to leverage its relationship with HSBC to save costs and its focus on offering a narrow range of financial services demonstrate its commitment to achieving comparative advantage and its ability to succeed as a hidden champion. The Bank's automated teller machines (ATMs) card, which allows customers to perform a variety of transactions via both HSBC and Hang Seng Bank networks in Hong Kong, is a prime example of its ability to leverage its relationship with HSBC. By sharing resources and infrastructure, Hang Seng Bank is able to offer its customers a wider range of services and maintain a competitive edge in the market. At the same time, Hang Seng Bank's focus on offering a narrow range of financial services has allowed it to focus on areas where it can achieve comparative advantage.

Striving for more work than heads

Hidden Champions typically have 'more work than heads', suggesting that productivity is high with little slack. Instead of creating new positions to take up unclearly divided work, Ho Sin Hang encouraged staff to offer help to one another, work as a team and share work (Ip and Ho, 2022). Hang Seng Bank therefore tries to keep employees challenged and productive. To ensure that employees were of high quality, during the Chinese Lunar New Year, Ho Sin Hang used to regularly have one-to-one meetings with dozens of employees, the aim being to review work performance and discuss ways to make improvements. He arranged classes and seminars to train employees on practical banking knowledge and sometimes opened these classes to the public for free.

Ho Sin Hang treasured talented and trustworthy staff. He would offer complete confidence and appropriate positions to them (Ip and Ho, 2022). Lee Quo Wei for example, was provided with many opportunities to develop his talent at Hang Seng. Ho Sin Hang took good care of staff and used daily meetings to share his philosophies and work ethics. He also provided attractive fringe benefits, including a preferential deposit rate of 10% and a six-month salary as a year-end bonus. This helped build strong staff loyalty and helped the bank maintain a low staff turnover rate. The ethos remains part and parcel of today's current operations at the bank. Based on the discussions with key staff, there is evidence that business is growing but the employee headcount is reducing. Staff are therefore very productive as more customers are being served by less people. Interestingly, this does not appear to demotivate employees, as the average tenure is ten years of service. Perhaps the growth of Fintech and on-line banking services etc, help to further fuel productivity.

In its efforts to cater to local clients, Hang Seng Bank ensures that all staff members are proficient in Chinese. This indigenisation strategy has several benefits, including reducing costs associated with expatriates and enabling the bank to establish local legitimacy and tap into indigenous knowledge (Collings et al., 2007; Oppong and Gold, 2016; Wood et al., 2020). As highlighted by Huo and Steers (1993), the effectiveness of incentive systems, influenced by culture within the realm of hidden champions, is complex and multifaceted. Culture plays a significant role in determining the values and priorities that workers hold, shaping their perceptions of problems, and setting boundaries on viable solutions. It is crucial to comprehend the formation of culture and its underlying factors in order to harness it as a catalyst for enhancing productivity. This understanding empowers managers to diagnose motivational issues and design more efficient incentive systems.

Hang Seng Bank's focus on teamwork, employee development, and staff loyalty are key characteristics of a hidden champion. By encouraging staff to work as a team and share

work, Hang Seng Bank has established a culture of high productivity and efficiency, despite having a small team. This approach has allowed the bank to maintain a high level of quality in its services and ensure that employees are challenged and productive, while avoiding the need to create new positions or hire additional staff. The Bank's commitment to employee development, through classes and seminars on practical banking knowledge and regular one-to-one meetings to review work performance and discuss ways to make improvements, demonstrates its commitment to building a highly skilled and knowledgeable workforce. By valuing talented and trustworthy staff and offering them appropriate positions and attractive fringe benefits, such as a preferential deposit rate and a year-end bonus, Hang Seng Bank has established a culture of strong staff loyalty and low turnover. Overall, Hang Seng Bank's focus on teamwork, employee development, and staff loyalty are key characteristics of a hidden champion.

6. Implications and Conclusion

The study has several implications, and as clearly highlighted it is evident that the unique characteristics of how the bank operates has the potential to advance further our understanding of organisational theory, the resource based view and the dynamic capabilities surrounding the marketplace as the bank seeks to maximise its resources in order to best serve its niche customer base. Being very customer centric and innovative in terms of how Hang Seng operates, enables it to take advantages in leveraging its marketing and relational capabilities. There is ample evidence to suggest that the nimble and marketing approach surrounding this case makes an incremental contribution to such theories and the literature within the Asian, Chinese and Hong Kong contexts. Perhaps we are even close to a new theoretical breakthrough that hinges on these other theories, which could be described as the 'Hidden Champions Theory' (HCT), as there is now becoming global evidence to suggest that such organisations share many common traits or key organisational constructs that can be explored and potentially measured.

At a practical level, the study has useful insights for managers. The case of Hang Seng bank is useful for identifying best practice and could be used as a benchmark comparator for other organisations in services to consider. The bank is hugely successful in how it operates, so it is an ideal case for aspiring managers to learn from. In addition, we can clearly see that such traditional values hold today relating to family values, people management and societal welfare. It also shows that the work of Simon is still highly relevant and valued in the current marketplace and serves as a good marker for both manufacturing business-to-business suppliers, as well as business-to-consumer firms operating in services.

In terms of public policy and society at large, the research provides more evidence that such medium sized 'Hidden Champions' should be targeted for special governmental incentives and support. This is because they create employment, are very successful, having lasted for many generations. They are also often good for society and contribute well to local communities. Perhaps this is the reason that the Chinese government is now looking to such firms and providing support for them as they attempt to 'kick start' the economy following the dampening conditions that have emerged post Covid-19.

Conclusion

The case for Hang Seng Bank as a 'Hidden Champion' has been clearly depicted in this article. In-line with the pioneering work of Simon and his research from 500 leading medium-sized German companies, it is evident here that Hang Seng Bank shares many of the traits in becoming a humble leader in Hong Kong's retail banking sector. Operating in Hong Kong, one of the World's most competitive markets is by no means simple. In-line with the 'Hidden Champions' as outlined by Simon, Hang Seng Bank has many of the core values associated with these German companies. It is evident that active leadership and the role of the founders played a significant role on the success of such companies, as well as the bank at large.

Similarly, the ability to cultivate a niche market, in this case, the indigenous Chinese people and provide added value to them has allowed the bank to thrive and leverage its well-established market position. In addition, innovating in other areas, such as establishing the Hang Seng Index and creating the Hang Seng School of Commerce (now the Hang Seng University of Hong Kong) represent novel and unique ideas that can extend the brand and positively enhance publicity surrounding the bank. Finally, and very much in-congruence with other 'Hidden Champions', it is evident that the founders and the current senior management to-date have a strong affinity with their staff, creating a decent environment so they can nurture their skills and innovation, which at the same time generates employee loyalty, thus allowing the bank to maintain low staff turnover. In brief, Hang Seng Bank is truly a 'Hidden Champion' as very little is known regarding the bank outside Hong Kong.

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