

Outward FDI from Hungary: the Emergence of Hungarian Multinationals

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ABSTRACT

Objective: Hungary is a leading outward foreign investor among the new member states of the European Union. Our research question is what those factors are which enabled Hungarian companies to expand abroad successfully.

Research Design & Methods: Our methodology is based on company case studies of the leading investors and other randomly selected companies with foreign investment.

Findings: Our main findings include the specific ownership advantages (OA) of privatised companies, with links to their heritage from the pre-transition period.

Implications & Recommendations: For companies established after 1990, OA is more similar to that of “traditional multinationals.” Second, we make a link between “virtual indirect” investors and this specific OA, showing how the strong position and specific knowledge of the management are interrelated in developing and changing the OA.

Contribution & Value Added: On the basis of our research, the policy dimension concerns, first of all, the role of increasing local competition due to increased investments by foreign multinationals. This enables a few local companies to enhance their level of competitiveness to such level where they themselves will be able to become successful foreign investors. Second, highly innovative companies in small market niches are able to internationalise successfully even in the post-transition environment. Fostering R&D is thus an important tool for trade and investment policy as well.

Article type: original research paper (case studies)

Keywords: FDI; outward foreign direct investment; Hungary

JEL codes: F21, F23

Published by Centre for Strategic and International Entrepreneurship – Krakow, Poland

Magdolna Sass's participation in the research was supported by the Hungarian research fund, OTKA grant no. 109294.

Suggested citation:

Antalóczy, K., Éltető, A., & Sass, M. (2014). Outward FDI from Hungary: the Emergence of Hungarian Multinationals. *Entrepreneurial Business and Economics Review*, 2(3), 47-61.

INTRODUCTION

Hungary is a leading outward foreign investor among the new member states of the European Union. It started to invest abroad earlier than other countries of the region, and thus the overall stock of OFDI and per capita OFDI is usually higher than in other Central and Eastern European (CEE) countries. Our study concentrates on the ownership advantages (OA) of these firms and the changes made to them which enabled them to become (regional) multinationals (MNCs).

Our paper's main aim is to show what factors enabled Hungarian companies to expand abroad successfully – and thus result in a significant stock of outward FDI at the macroeconomic level. Our methodology is based on company case studies of the leading investors and other randomly selected companies with foreign investment. The remaining part of the paper is organised as follows: First, we show the theoretical framework and a short review of the literature for our analysis. Second, we briefly describe the methodology used in this initial phase of the research. Third, we present the company case studies. Fourth, we briefly compare ownership advantages of our company cases with those of “traditional” and emerging multinationals. The final section presents our conclusions.

LITERATURE REVIEW

We rely on two strands of literature. First, our analysis focuses on the notion of ownership advantages (OA), which enable companies to invest abroad successfully. Second, we also relate our research to the literature on emerging multinational companies (EMNs), which delineate the distinguishing factors between “traditional” and emerging MNCs.

The eclectic paradigm of Dunning (1993) is a summary of theories, which builds partly on the theory of internalisation (Buckley & Casson, 1995) and transaction costs (Williamson, 1975). The three elements of the OLI-paradigm are: ownership, locational and internalisation advantages. These advantages explain foreign direct investments, i.e. for a foreign direct investment to be realised, all three of these advantages must be in place. The investing company must have ownership and internalisation advantages, while the host country must possess locational advantages.

As some authors argue, the OLI paradigm explains the investment of multinationals from developed countries well, but it is less relevant in the case of EMNs (Contessi, 2010). EMNs are very heterogeneous and do not seem to possess OA, for example, in the form of strong global brands. Some EMNs even have “adversity advantages”: they are able to handle relatively disadvantageous local conditions in less developed countries that would otherwise scare off investors from advanced countries. On the other hand, certain EMNs invest abroad just to obtain OA (Aulakh, 2007; Mathews, 2006). Ramamurti (2012) argues that EMNs have to have OA; however, these are different from the ones of developed firms or “traditional” MNCs. Such OA can be the understanding of emerging market needs, functioning in difficult circumstances, etc., which obviously differ from the

characteristics and abilities of “traditional” MNCs. Certain authors point to the fact that with time EMNs will develop similar OA to the developed MNCs (Lessard & Lucea, 2009).

According to another strand of literature, firms in less developed countries may also have OA. The heterogeneity of firms is highly relevant in the case of EMNs. Productivity and efficiency can depend on the form of FDI or internationalisation (Nocke & Yeaple, 2008). Highly productive firms coexist with less efficient ones within one country. This heterogeneity is related to the comparative ownership advantage framework (Li Sun, Peng, Ren & Yan, 2012) that says that although country A may be less developed than country B, certain companies in certain industries in country A can be superior in some fields (design, marketing, research, etc.) to their counterparts in country B. This can then lead to country A's firms' successful investment in the more developed country B.

The specific nature of EMNs has led certain researchers to revise previous theoretical frameworks. For example, instead of the OLI framework Matthews (2006) elaborates the “LLL framework” that he considers more relevant in the case of “Dragon” (i.e. Asia-Pacific) MNCs. The three letters mean Linkage (acquire resources externally), Leverage (exploit the resources stemming from linkages) and Learning (becoming more effective).

The literature on EMNs is large, but analyses are generally made on firms in the BRIC countries, while MNCs originating from CEE are analysed much less often. These “transition country multinationals” fit neither in the traditional theories of advanced MNCs, nor in the theories of EMNs. (Svetlicic, 2004) CEE countries are somewhere in between the developed and developing countries. The example of Hungary and Hungarian MNCs is a good illustration of a “middle-developed” economy and its companies, which invest larger and larger sums abroad.

MATERIAL AND METHODS

In the present phase of our research, we rely on company case studies, for which the information is obtained from the balance sheets, websites of the companies and articles from specialised newspapers and journals. We selected six Hungarian-controlled companies which invested abroad. We tried to include companies of all sizes and firms from those sectors, in which significant foreign investments were realised. Of course, partly due to the low number of companies in the sample, it cannot be representative, but taken as a kind of “pilot” before conducting a research on a larger sample, it can provide important insights regarding our research question, namely what factors enabled Hungarian companies to successfully invest abroad.

Case studies can serve as a useful tool in the first stage of a research. They can be a useful tool for identifying problems and determining data needs for a statistical analysis, especially in the circumstances of the unreliability of macrodata and when the analysis is focusing on qualitative issues.. They help gain qualified knowledge for a deeper understanding of the analysed theory on the basis of practical cases (Eisenhardt, 1989). Case studies are rich in detail and provide information on the dynamics of the analysed process. They can give insight into phenomena, which are seemingly unrelated to the analysed problems, but can prove useful in the analysis. The advantage of using multiple cases over one company case study is obvious. In multiple case studies there is room for

the heterogeneity of firms and strategy, as well as for concentrating on those aspects of the problem, which we deem to be the most important in the given case. The case study approach is more flexible and thus it can grasp a wider spectrum of factors affecting the analysed phenomenon. We are nevertheless aware of the limits of this method. While they provide very valuable information on the behaviour of firms, generalisation may be difficult due to the small number of firms involved in the sample, compared to the usually large number of company data analysed in econometric studies. The collected material may also be biased due to the selection of companies. Overall, the heterogeneity of Hungarian firms investing abroad makes it useful on one hand to rely on this methodology, and on the other hand, to base our research on multiple case studies at this early stage of research.

RESULTS AND DISCUSSION

FDI in Hungary – Overview

Hungarian companies started to invest abroad substantially in the mid-1990s. Since then, outward flows increased steadily, reaching their highest values in 2006-2007. Flows in the crisis years declined sharply, and then slowly reached the pre-crisis level again by 2012 (Figure 1).

Pre-crisis fluctuations can be attributed to the fact that both Hungarian-based, formerly state-owned, but now privatised, companies and foreign-owned Hungarian affiliates of large MNCs started to get involved in privatisation deals in neighbouring countries. One or more privatisation projects push annual outflows to a higher level in certain years. Thus, Hungarian OFDI was closely related to privatisation deals in geographically close countries. During crisis years and afterwards, privatisation-related deals are much less significant.

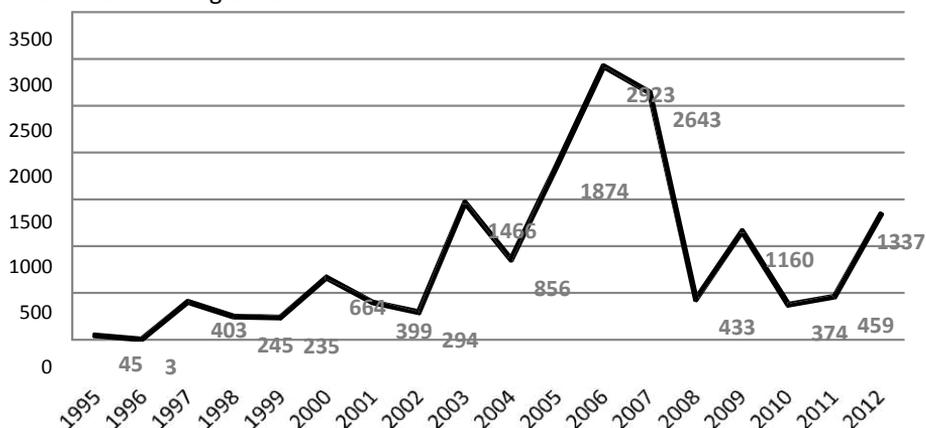


Figure 1. Outward FDI Flows from Hungary, 1995-2012 (million EUR)

Notes: Excluding Capital in Transit, Restructuring of asset portfolios and Special Purpose Entities

Source: Hungarian National Bank

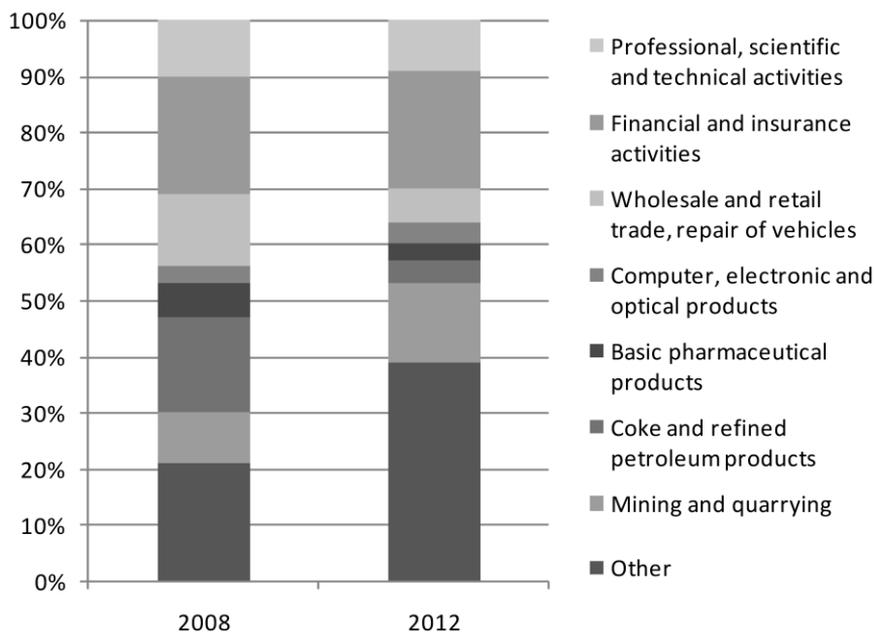


Figure 2. The Sector Composition of Outward FDI Flows from Hungary, 2008 and 2012 (%)
 Source: Hungarian National Bank

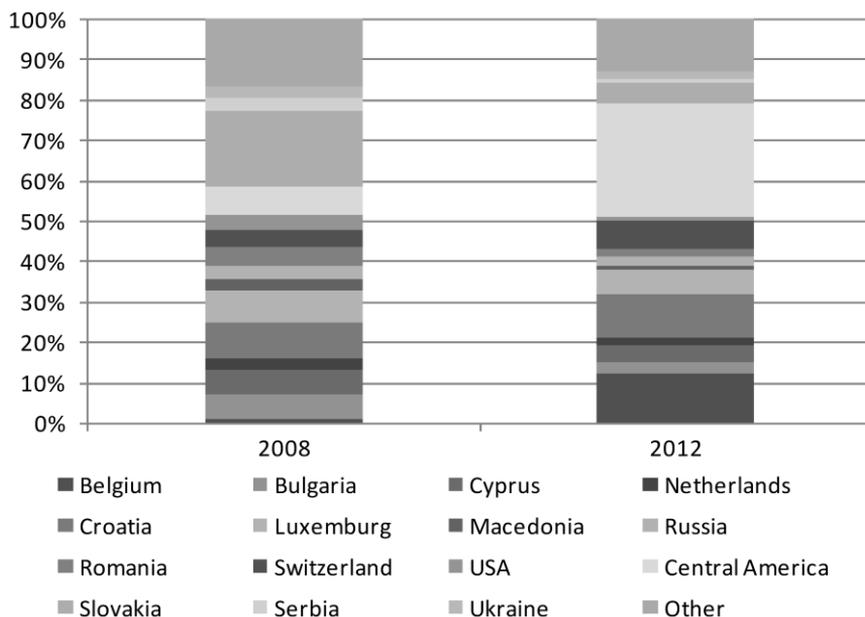


Figure 3. Host Country Composition of Hungarian OFDI, 2008 and 2012 (%)
 Source: Hungarian National Bank

The sector composition of OFDI shows the dominance of a few sectors (Figure 2). While services OFDI initially dominated, the share of manufacturing increased gradually to more than one-third by 2008, declining again by 2012. Certain leading sectors can be connected to the activities of a few companies, as for example mining and petroleum to MOL, financial services to OTP and pharmaceutical products to Richter. This underlines the relatively high concentration of Hungarian OFDI in terms of investing companies.

As for host countries, neighbouring and geographically close countries with which Hungary has had traditional economic ties (Croatia, Slovakia, Romania, Bulgaria, Russia, Ukraine, other former Yugoslav countries) always had a large share in Hungarian OFDI (Figure 3). On the other hand, countries known for their “tax optimisation facilities” (Cyprus, the Netherlands, Luxemburg, Central America and to some extent Switzerland) have an increasing part lately.

SHORT CASE STUDIES OF HUNGARIAN OUTSIDE INVESTOR COMPANIES¹

MOL is one of the leading companies in CEE and in Europe in petrol and gas production and distribution, the largest Hungarian company in terms of turnover, operating profit, exports and foreign assets, and it is the leading one in its sector. As is often the case with these types of companies in the gas and oil sector, it has a monopoly in certain areas. Its predecessor was founded in 1938 and was nationalised in 1949. In 1957, the Hungarian oil industry was integrated into a single entity: Hungarian Oil & Gas Trust (OKGT), the largest Hungarian firm at that time. The OKGT’s privatisation process was launched in 1991, when its legal successor, the Hungarian Oil & Gas Company Plc (MOL)’s shares were introduced to the Budapest Stock Exchange (in three tranches: 1994, 1995, 1997). In September 2013, 27.3% of the shares were held by various foreign institutional investors, while 24.6% were held by the Hungarian government. Other shareholders of above 5% are the Czech group CEZ (7.3%), OmanOil (7%), Magnolia Finance (5.7%) and ING Bank (5%). Thus, MOL is majority foreign-owned, but not foreign-controlled, as none of the foreign owners has more than 7.3% of the shares. All strategic decisions are made by the company’s management residing in Hungary.

In 2013, MOL was the majority owner of 39 foreign affiliates, as a result of a gradual foreign expansion strategy. Its first two affiliates were established in neighbouring Romania and the Ukraine in 1994 through greenfield investments, followed by other greenfield investments in other neighbouring countries. A strategic change came in 2000, when MOL decided to become a leading regional MNC. Since then, privatisation-related acquisitions have dominated with an increasing project size. In 2000, the company acquired dominant ownership of Slovnaft, the leading Slovakian oil firm. MOL also owns 49% of the shares of the Croatian INA, the national oil company. Other affiliates of MOL include resource-seeking investments in Asia, the Middle East, and Africa, which are smaller in size and focus on exploration and production. Other

¹ The case studies on MOL and OTP are the updated versions of those presented in Sass *et al.* (2012). The sources of information are company websites (www.mol.hu; www.otp.hu; www.richter.hu, www.videoton.hu, www.aboholding.com, www.3dhitech.com) and publicly available balance sheets of the companies, unless otherwise stated.

European affiliates can be found mainly in distribution and wholesale and retail trade, motivated by access to the local market. (These are located, among others, in Austria, Germany, Romania, Russia, Serbia, and Slovenia). As part of the new strategy, MOL also acquired a majority stake of 30% in the leading Hungarian petrochemical company TVK in 2000, increasing it gradually to 87%. Thus, MOL's foreign assets also increased as TVK itself is a foreign investor with affiliates in Italy, Great Britain, Germany, France, Poland and Ukraine. After becoming a regional multinational, MOL was target to unsuccessful hostile takeovers first by the Austrian ÖMV and later by the Russian Surgutneftegas. The Hungarian Government owns a voting preference share, which entitles it to veto certain strategic decisions, including those affecting ownership changes in the company. None of the shareholders or groups of shareholders may exercise voting rights of more than 10%, as is stated in MOL's Articles of Association. Thus, both hostile takeover attempts proved to be unsuccessful, but as a result, the management is trying to strengthen its position further, partly through additional foreign acquisitions and greenfield investments.

The OA of MOL can be found in the knowledge of regional markets and contacts established in the pre-transition period. The firm has a deep knowledge of the privatization process and post-privatisation restructuring of formerly state-owned firms in CEE. However, as we could see, its foreign expansions are characterised by a defensive motive as well.

The Hungarian OTP is the largest regional player in the banking sector in CEE. The legal predecessor of OTP, established in 1949, was a nation-wide state-owned bank specialised in retail banking. In 1990 it became a public company and non-banking activities were sectioned off. At present, OTP is Hungary's leading bank, with an overall market share of more than 25%, and dominance in the retail segment.

OTP was privatised through the stock exchange in three "tranches" (1995, 1997 and 1999). As a result, the state's ownership in the bank decreased to a single voting preference (golden) share. Currently, the bank is characterized by dispersed ownership of mostly private and institutional (financial) investors. As of 31st of December 2013, the ownership structure is as follows: 35.6% of the shares are in domestic ownership; the Hungarian state owns 5.1%, MOL 8.6%, and no other domestic owner has above 5%. 64.4% of the shares are owned by foreigners in a similarly dispersed manner, with no controlling shareholder. None of the foreign owners has more than 9%. Thus, strategic decisions are made by the Hungarian management, residing in Hungary. There are no foreign citizens in the senior management or among the members of the Board of Directors. The official language of the company is Hungarian. Thus, OTP is majority foreign-owned, but not foreign-controlled.

OTP is a strictly regional player; 100% of the bank's assets are located in the CEE region. By the nature of its activities, all its investments can be regarded as market seeking. In 2002, it acquired a Slovakian bank. In 2003, a Bulgarian bank, in 2004, a Romanian bank, in 2005, a Croatian and a Serbian bank, in 2006, another Serbian bank and entered the Ukrainian, Romanian, Russian and Montenegrin banking markets. More recently, in January 2014, it acquired another Croatian bank. Its entry modes are connected to privatisation, with the exception of the Romanian, Russian, Montenegrin, Ukrainian and recently acquired Croatian banks. Altogether, OTP has

13 million customers and 1500 bank offices in the region, and is becoming one of the leading regional banks.

What is the source of OTP's OA? In the first period of its foreign acquisitions, OTP gained expertise in transforming a formerly state-owned bank into a bank able to operate successfully in a market economy. In that sense, the earlier privatisation of banks by foreigners, resulting in a competitive environment, and the earlier transformation of the banking system in Hungary compared to other CEE countries played an important role. In 2002, those countries where the bank is present were clearly behind Hungary in terms of the process of establishing a market economy. Later, when CEE countries made significant steps towards the market economy in terms of the regulatory system and privatisation, OTP bank had to find a new OA. This, nowadays, can be found in operating successfully in a post-transition environment, especially in the retail sector.

Gedeon Richter Plc (GR) is one of the largest pharmaceutical companies in CEE². The company was established by pharmacist Gedeon Richter in 1901. It became an internationally recognized major firm in the period between the First and Second World War. The company conducted R&D activities from the beginning, obtaining 86 patents by 1948. It internationalised early, beginning in 1920 through operating agents and agencies, ten subsidiaries and 40 representation offices abroad. GR was Hungary's second largest exporter before World War II, but after 1945 it lost its Western European export markets and subsidiaries, and was nationalized in 1948. In 1949, the COMECON³ was formed and GR focused its export activities on the CEE markets, becoming the largest supplier of pharmaceuticals to COMECON. Since the mid-seventies, GR has increased exports to Western countries, and in the 1980s the company concluded R&D development cooperation agreements with American and Japanese firms. After the collapse of COMECON, Richter lost its CEE markets and had to struggle for survival even at home, in the post-transition business environment. The new management introduced a new strategy in 1992 that includes investing abroad and building an international network. The firm was privatised through the stock exchange in three tranches (1994, 1995 and 1997). Currently, RG is characterized by dispersed ownership of mostly private and institutional investors without any investor holding a controlling share. (At present, 25% of the shares are held by the Hungarian state, 69% by foreign (institutional and retail) investors, and 6% by domestic investors.) Strategic decisions are made in Hungary by the Hungarian management.

GR started investing abroad after its privatisation was complete. Nowadays, it is a regional MNC, with production affiliates and representative offices in neighbouring and geographically close countries, including Western European locations (Germany and Switzerland). It also has affiliates in faraway countries (e.g. in India, China, Jamaica, Mexico). GR is present in 38 countries with 5 production sites, 29 representative offices

² The case study of GR relies mainly on Antalóczy (2008).

³ The Council for Mutual Economic Assistance (COMECON) 1949–1991, was an economic organization under the leadership of the Soviet Union that comprised the countries of the Eastern Bloc and other socialist states elsewhere in the world.

and 27 commercial subsidiaries, and is thus the most geographically „spread” firm among Hungarian investor companies. GR is a branded generic company with markets characterized by a very intensive (price) competition both on the domestic market and abroad. Its OA include the knowledge of and contacts to the region’s market (especially CIS, Poland and Romania), its strength in generic R&D, its good market position with geographic and therapeutic niches (female healthcare) and its experience, expertise and brand name accumulated over more than 100 years and strengthened in the region during the COMECON era and afterwards.

Videoton was established in 1938. It became a major state-owned company in the eighties employing 18 000 people. After the collapse of its regional markets, it was bought by three Hungarian individuals within the framework of privatisation in 1992. Based on its own traditional technologies and competencies, the firm manufactures parts, sub-assemblies and modules in electronics, plastics and machinery. Videoton provides a wide variety of products for the automotive, consumer electronics, household appliances, IT, office equipment and telecommunication industries. As the largest industrial company in Hungarian private ownership, it has become a major CEE player and could maintain its market position. In 2013, the company employed 7052 workers; its consolidated revenue was 327 million EUR, two-thirds of it coming from exports, mainly to EU markets. Before 1998, Videoton carried out mainly assembly-type activities, and extended its capacity by acquisitions in other Hungarian cities. It benefitted from the early arrival of electronics and automotive MNCs to Hungary compared to other countries in the East-Central European region by becoming their supplier, and based on that experience, through assembling for exports. Due to the relative increase in labour costs in Hungary, Videoton changed its strategy afterwards. The company became a full contract manufacturer, offering complete end-to-end solutions, increasing to a great extent the engineering content of its products. Investments were made in the domestic company and certain labour-intensive production phases were relocated to lower-labour-cost Bulgaria: Videoton bought DZU AD in Stara Zagora in 1999. In 2009, Videoton established a manufacturing plant in the Ukraine (Mukachevo). The main motive of both of its foreign acquisitions was clearly efficiency-seeking, motivated by the lower labour costs available at the foreign locations.

The OA of Videoton consists of accumulated expertise in the field of electronics and the ability and capability of vertical integration among its affiliates. Moreover, it can rely on its established contacts with electronics and automotive MNC affiliates in Hungary and abroad. Videoton could successfully change strategies and adapt itself to the changing features and demand of electronic industry and related services, partly helped by its efficiency-seeking foreign acquisitions.

The predecessor of ABO Holding was Szabolcs Gabona Ltd., founded in 1993 by conglomerating former cooperatives and firms that traditionally had purchased and processed corn and grain. Apart from mills, flour, and cereals, ABO Holding has poultry and pork farms. Thus, it operates in a sector where Hungary traditionally had comparative advantages, and where competition in Hungary is intense. It is owned by Hungarian private persons, and it was thoroughly reformed in 2005 when the present name was introduced. Domestic and foreign market presence was increased by acquisitions and developments: the firm invested in neighbouring Slovakia, the Ukraine

and Romania. The main motivation of investment was market access, but to a certain extent increasing efficiency through lower labour costs was also an aim. In 2007 and 2008, ABO invested about 1 billion HUF in development and innovation on bio food base materials and an increase of poultry and pork capacities in Romania.

The crisis hit ABO Holding severely, resulting in huge losses and, consequently, liquidation proceedings. Apart from the crisis, the abolition of EU and state subsidies on chickens beginning in 2010 and the decrease of meat prices caused severe difficulties. From 2010, ABO rationalised its activity, merged production capacities and liquidated loss-making parts. Abofarm (chicken) in Romanian locations had to decrease employment to one third. The company sold and let out firms' premises and machines that were not used. The main OA of ABO Holding is that it had skill, experience and knowledge regarding corn and grain processing and gained considerable experience early on with the market economy transformation of the sector. Up until the crisis, it also enjoyed favourable credit facilities and conditions at home.

3D Histech is at present a medium-sized company with 72 employees. It was established in 1997, though the year of formal establishment dates back to 1991, when it started its activities with three employers, i.e. as a micro company. However, at that time the company's main activity was wholesale and retail trade, while after a change in ownership in 1997 it has dealt with the development and production of digital slide scanners (virtual microscopy), including both hardware and software production. This change in activity was the result of a spin-off type development: the owner, himself a physician working at a university, elaborated the technology for producing the product. The strong traditions of Hungary in the medical precision instruments sector and the strong international cooperation in R&D activity at universities both helped that development. The company grew relatively quickly after changing its product portfolio, though at the end of the nineties it had problems with financing its activities. As the owner put it: "...at that time we were knocking on the door of venture capital providers in vain – now we are the ones who do not want any money from them." The company internationalised very soon after its establishment in 1997: the share of exports in total sales by 2000 reached 90%, while at present it is 97%. The company exports both inside and outside the European Union. At present, it sells more than 60 digital slide scanners annually all over the world. In 2013, it won the prize of the innovation exporter of the year award from the Hungarian Investment and Trade Agency⁴. Already in 2000, the firm established a representative office in the United States. The main reason for this was, first, the company wanted to be present close to the "knowledge" centre in its field, second, to be close to one of its important markets.

The OA of the company is its innovativeness. It came up with a real novelty even on a worldwide scale, and it is now leader in the digital pathology market. The owner is a trained physician, who once said that the idea of the innovation occurred to him during the dull and cumbersome pathology training in the university. The quality of the products is secured partly through the innovative techniques and technology, partly

⁴ <http://www.mkik.hu/en/magyar-kereskedelmi-es-iparkamara/cikkek/exporters-of-the-year-awards-2013-handed-over-66399>

through the use of high quality inputs imported from Japan and the US⁵. The product is thus made up of high tech components and supplemented with specifically developed software. The company can be considered a “born global,” as it internationalised both through exporting and through investing abroad very soon after its establishment.

HUNGARIAN OUTWARD INVESTORS – COMPARISON WITH “TRADITIONAL” AND “EMERGING” MNCS

Our results can only be considered preliminary due to the research method applied. Because of the limited number of company case studies, we cannot generalise our findings; however, regarding the relatively scarce research efforts in the field, our results can be a basis for further research.

First, we should state that according to estimations our company sample, containing six cases, represents the dominant part of Hungarian investment value abroad. (e.g. Sass & Kalotay, 2011). MOL and OTP are the two leading foreign investors, Richter is estimated to be third, and Videoton fourth (Sass & Kovács, 2013). Our company case studies provide insight into the nature and developments of OA of the analysed Hungarian MNCs. On the basis of their OA, we can distinguish two groups of companies in our sample. In the first group, there are firms which “inherited” their OA from the pre-transition period. Their OA is specific: it is highly related to their knowledge about privatisation and about the restructuring of formerly state-owned companies acquired in the countries of the wider region: CEE and SEE. Moreover, personal and business contacts established in the pre-transition era also play a role.

However, the importance of this OA fades significantly over time partly due to the “running out” of privatisation deals, partly due to the advancement of the countries in the region in establishing a market economy, partly due to the gradual loss of personal contacts inherited from the pre-transition era. When this inherited OA partly disappears, usually the firms in question change strategies, and together with that there is a change in their OA as well. This is most obvious in the case of OTP and RG, where the new OA can be found in concentrating on a specific market segment where the firm develops efficient management skills and knowledge. This new OA enables these companies to be competitive in new markets as well, and thus venture further away from their neighbouring region with market access investments, as was the case with RG. The case of MOL is similar, where the change of strategy consisted in changing the targets of foreign acquisition from downstream to upstream segments. In the case of Videoton, foreign acquisitions are part of the new strategy, which involves acquiring production units in neighbouring countries with lower labour costs, i.e. with an efficiency-seeking motive. Thus, on the basis of our sample, a dynamic analysis of OA in the case of Hungarian MNCs shows that when the initial, inherited OA of formerly state-owned firms expires, they are capable of changing it into a new type of OA, enabling them to continue their expansion abroad successfully. This dynamism can be related to the analysis of

⁵ Source of the information is an interview with the owner of the company, which was prepared in 2009 (Sass, 2012).

Lessard & Lucea (2009), who underline that EMNs are able increase and change their OA – as may be the case for all MNCs, actually.

It is important to delineate the specific type of OA these companies have in the first stage of their expansion. In the traditional meaning (Dunning 1993), OA usually consists of highly developed technology or globally (or at least regionally) recognised brands. In the case of EMNs, we cannot find this type of OA, while obviously, other OAs are present (Ramamurti, 2012), such as the ability to function in a difficult business environment, the ability to understand customer needs in specific markets, etc. In our investigation, we kept in mind the following statement from Ramamurti (2012, p. 42): “We need to understand better which advantages can help with successful internationalisation, which ones cannot and why.” In the case of the top two Hungarian MNCs, we identified a very specific OA, which enabled and helped their foreign expansion: their experience with privatisation in a post-transition environment in the former socialist countries of CEE and South-East Europe (SEE), and the subsequent restructuring of the acquired company (or bank in the case of OTP). This finding is supported by the fact that in the first stage of their internationalisation, these companies’ entry mode was predominantly based on acquisition in the framework of privatisation. Moreover, for almost all companies in the sample (the exception is 3DHitech), we assume that management abilities and the knowledge for successful operations in a post-transition business environment, where market forces are not fully influential, also form part of OA.

The second type of OA in smaller sized MNCs (ABO and 3DHitech) established in the post-transition era are more similar to those of developed country MNCs (Dunning 1993). ABO operates in a sector in which Hungary has traditionally had a comparative advantage over other countries in the region. 3DHitech relies on its innovations. Both of them internationalised relatively early after their establishment.

In our small sample we could not find evidence of foreign companies being acquired in developed countries in order to acquire OA, as it is shown in the case of certain EMNs (e.g. Mathews, 2002). In the case of the two highly innovative companies in our sample: RG and 3DHitech, they have their own resources to be innovative. Moreover, they operate in highly innovative sectors; thus, being innovative, carrying out R&D, and registering patents is their normal *modus operandi*. Their acquisitions in developed countries have aims, which may be related to market-seeking and strategic asset-seeking motives (in the case of RG), as well as being closer to the “knowledge centre” of their sectors (in the case of 3DHitech).

Our second finding relates these OAs with the notion of “virtual indirect” investor companies, which we first introduced in the literature and described in Sass *et al.* (2011). Three companies in our sample, MOL, OTP and RG are all majority foreign-owned, but not foreign-controlled. They all were privatised in the Budapest stock exchange in tranches, which resulted in a dispersed majority foreign ownership, where there is no foreign owner with above 10% shares (or votes). According to the literature, they are considered to be indirect investors as they are majority foreign-owned (e.g. Rugraff 2010), however, we would rather call them “virtual indirect,” as many of their characteristics are much closer to direct than to indirect investors. The main reason is that in our understanding, majority foreign ownership is not necessarily equal to foreign control. In the case of our three companies, their majority foreign ownership coexists

with a domestic control, where the Hungarian management or the domestic Hungarian controlling owners residing in Hungary make all decisions of strategic importance. In that respect, the OAs of the companies in question and the changes in their OA are connected to this special situation in their ownership and management. We could see that these companies were already important and successful market players in the pre-transition era with a strong management. Through the method of privatisation the management of these companies obtained a strong position in the company, where there were and are no controlling owners. On the other hand, their early privatisation (compared to their counterparts in other former socialist countries) provided an invaluable asset for them in terms of gaining knowledge about privatisation and the post-privatisation restructuring of state-owned enterprises and banks, on which they could later build their foreign expansion. Moreover, the foreign expansion of these companies also served strategic purposes for the management: it could strengthen their position and the market position of their respective companies as well. The strength of the management is manifested in their ability to change their OA, when the previous one could no longer serve as a basis for their foreign expansion.

CONCLUSIONS

Hungary is one of the leading outward investors in the CEE region, breeding a relatively large number of indigenous MNCs. In our paper, we analysed the ownership advantages of Hungarian MNCs, which enabled them to expand abroad successfully. We relied on six company case studies, including the leading Hungarian investor firms as well as smaller sized foreign investors. We showed the process through which these companies have developed and changed their OA, through reliance on which they could become successful outward investors. In the case of privatised firms, this has specific links to their pre-transition period heritage, while in the case of “virtual indirect investors” it is linked to the strategy of the management, and thus represents a special type of OA, which may be characteristic of formerly state-owned, large companies in post-transition countries. In that sense, their specific OA, at least in the first phase of their outward expansion, is more similar to that of emerging multinationals. For companies established after 1990, OA is more similar to that of “traditional multinationals.” We emphasized the dynamism of OA, with constant changes when the actual OA is no longer able to provide a basis for successful foreign expansion and thus the company needs to modify it or change it completely. We showed that for “virtual indirect” investors, this change resulted in an OA which is now more similar to that of “traditional multinationals.” This was especially true for the pharmaceutical company, Richter Gedeon, and to a lesser extent for the other two “virtual indirect investors,” MOL, and especially OTP.

As for future research, our paper forms a basis for carrying out an analysis first, of a larger sample of Hungarian outward investor firms, and second, of companies from other former transition economies. The notion of “virtual indirect investors” especially should be studied checked in other post-transition economies, as it may be a specifically Hungarian phenomenon due to the special timing and method used for privatisation in our country. Moreover, the initial nature, present state, and dynamic change in-between these two in the OA of foreign investor companies from other post-transition countries

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