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THESIS SUMMARY

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Hungarian Multinationals:
A Time-Based Perspective of Firm Internationalization
in a Transformational-Country Context

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I. RESEARCH MOTIVATION

In spite of the relevance of addressing evolution along time in order to understand and interpret the internationalization process, studies dealing with the sequence and interdependence of events along a period of time are still lacking. In most of the studies the pattern of internationalization along time is depicted however the process itself is not examined.

In organization studies there have been two basic understandings of the concept of process – a “weak” and a “strong” one, partially overlapping but also different (Chia and Langley 2004, Van de Ven and Poole 2005). The ‘weak’ view treat processes as actions of “things” that can be described as variables or states and can be compared, while the “strong” view considers actions and things to be “instantiations of process complexes” (Chia and Langley 2004). Organizational research has been dominated by the first perspective that tends to be more pragmatic, empirically grounded and analytical in orientation. The second perspective has been primarily conceptual and dynamic concepts such as events, outcomes, orderings, change, relationships, patterns, profiles and different contextual categories are considered the essence of organizational life (e.g. Langley 1999). While the first perspective helps us observe and empirically research processes, the latter enables us to appreciate the sui generis (of its own kind/genus). The first approach is rooted in the positivist research philosophy with the final goal of explanation. The second one is the interpretative philosophy that aims describing and understanding.

Most of the international business research publications can be located in the positivist stream characterized by a “weak” process understanding. Interpretative research philosophy has left out the attention and interest of the majority of international business and business management scholars in general. This can be most likely attributed to the simple fact that “explanation is essential to theory and practice” (Pentland 1999, pp. 711). However the so called “narrow vision” (Sullivan 1998) of international business research has been widened through the use of multidisciplinary approaches and more process oriented research designs. One recent example is the general model of entrepreneurial internationalization process (Jones and Coviello 2005) presented in the literature review. This is a conceptual model that integrates existing models and concepts incorporating time against which internationalization may be examined. The model communicates well with the processual view of organizations however it is much more difficult to decide on whether the model belongs to the “weak” or the “strong” process understanding. Internationalization is considered along time, but the “story” of internationalization is reduced to “things”, more precisely pre-selected variables, like firm structure and resources, environmental characteristics, performance characteristics and so on (Jones and Coviello 2005, pp. 296). The model explores the relationship between input and output variables of internationalization but says nothing about the sequence and change of these interconnected variables that leads to the internationalization events along time. However as Pettigrew (1990, pg. 269) has stated “…theoretically sound and practically useful research on change should explore the context, the content and the process of change together with their interconnections through time”. The Jones and Coviello model (Jones and

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1 Surprisingly if one try to search in JSTOR database using as key word „interpretative”, narrowing the search to the title, only two articles are resulted.
Coviello 2005) binds together the content and context of change, but the context is dealt as a static dimension, hence the model serves a “week” process understanding. Thus the first research goal (Rg) is:

\[ Rg_1: \text{To observe actions and interactions related to firm internationalization and their evolution over time in a process design fashion in order to fully understand the reasons behind the dynamic profile of internationalization.} \]

Internationalization is a complex phenomenon that is context-specific not only in temporal terms but also as regards the spatial context consequently the institutional, cultural environment of the phenomenon should be considered as an explanatory factor and not as a boundary condition (Cheng 2007).

The literature review about the internationalization of companies from transforming CEE showed that the time based process of internationalization of indigenous companies from Central and Eastern Europe is an under-explored area. This process is particularly important for the case of the indigenous companies from transformational countries that have operated in business environments with very different transformational patterns (Szelényi 2004) and have followed very different paths of development (Peng and Heath 1996, Whitley and Czabán 1998, Peng 2003) and integration into global economy (Meyer and Gelbuda 2006). Since transformational countries are non-traditional home countries for an MNC, interactions with transforming environmental conditions are important to study. Consequently the second research goal is the following:

\[ Rg_2: \text{To perform a contextual study about the firm internationalization process in the specific CEE region.} \]

It has been argued that international business research has been increasingly theory driven in spite of the fact that the phenomenon which constituted the basis for the theory had been changed (Buckley and Lessard 2005, Cheng 2007). Many researchers design their studies to advance understanding of the theory rather than the phenomenon under study which is inconsistent with the goal of science phrased by Hempel (1965) to be explanation and prediction and not the advancement of a particular theory or discipline for its own sake (Cheng 2007). As the complexity of empirical phenomenon and theoretical fields increases this recursive approach is quite risky (Buckley and Lessard 2005) and in the best case will lead to incremental theory extension with little new knowledge development (Cheng 2007). There is a need of Bartlett and Ghoshalian “hypothesis-creation” research (Bartlett and Ghoshal 2002) rather than hypothesis-testing research or in Cheng’s words research should be phenomenon motivated and theory-based and not the opposite (Cheng 2007). Thus the third research goal is the following:

\[ Rg_3: \text{To analyze the original question of how companies internationalise motivated by the empirical phenomenon and not by theory-based hypotheses.} \]
In summary, the objective of this dissertation is to describe and explain the internationalisation process and to understand the dynamic linkages between the temporal context and the content of firm internationalization using a phenomenon oriented research design.
II. RESEARCH METHODOLOGY

i. Case-study approach

Methods of data collection and analysis is determined largely by the type of the research questions being posed. The research question guiding this study is characterized as one of description and understanding of firm international evolution over time. Consequently the research methodology needs to allow for generation of large amount of multifaceted and in-depth data and an approach that is flexible enough to allow the researcher not to stick to the existing theoretical frameworks. Thus the case study approach was selected as the principal method of data collection and analysis. The rational for this choice is in accordance with the suggestions made by the main protagonist of the case-study method Yin (1984, 1994) as well, who stated that the case study method is preferred when we analyse a contemporary phenomenon within real-life context (in our case this is the internationalization process of Hungarian companies), searching for questions such as “how” (description of internationalization process) and “why” (understanding the internationalization process) and we have little control over events (external observer of the process). Further on the method allow us to examine the internationalization over time in a longitudinal fashion that is one of the main research goals of this study. The analysis is retrospective meaning that is based on the backward-looking interviews and secondary data. The retrospective approach is beneficial for interpretation and understanding and it’s limits (i.e. the interviewees don’t remember well what happened in the past) can be diminished by the longitudinal character of data collection. The case methodology is also helpful in generating sensitive, confidential or consequential data (Rouse and Daellenbach 1999) that is crucial in the interpretation-oriented research.

According to Yin (1994) within the case-study approach one can use a single-case or multiple cases and one can focus on single- or multiple units of analysis. Multiple case-studies are designed to compare and contrast through intensive qualitative analysis a limited number of cases (Leonard-Barton 1990). Further on the multiple case study enhances external validity by providing the opportunity to verify the research questions in multiple circumstances (literal replication) (Eisenhardt 1989). The approach suggested by Eisenhardt (1989) however is rather positivistic since the author offers a strict and highly structured method of case-analysis aimed at generating testable theories grounded in data through the use of multiple case studies. The multiple case study reseach involving multiple units and levels of analysis applied in this dissertation is more related to the view adopted by Hartley (1994 pg. 208-209) who considers case study reaseach as “a detailed investigation, often with data collected over a period of time (…) providing an analysis of the context and the process involved in the phenomenon under study. The phenomenon is not isolated from its context (…) but is of interest precisely because it is in relation to its context.”

2 A more detailed persentation of data collection will be performed in Chapter 3.2.3.
ii. The research cases

As the focus of this dissertation is on Hungarian multinational companies three different principles have been used to define the nationality of the firm:

- the principle of incorporation
- the principle of the company headquarter
- the principle of control.

Accordingly a Hungarian multinational company is a firm that is incorporated, headquarted and controlled in Hungary. Thus the first condition was that the firm should be incorporated, headquartered and controlled in Hungary. The foreign headquartered companies that use their Hungarian subsidiaries for their subsequent investments were excluded since they are not the subjects of the present dissertation. The reason for excluding them is that these companies internationalisation may differ substantially from that of the domestically managed and controlled companies. The second condition was that the firm should fit the category of MNC thus having foreign direct investment, with effective managerial control. Export and import companies without FDI were excluded, because they do not effectively control these subunits. The third selection criteria was the degree of their commitment to foreign markets measured by the number and diversity of foreign locations and entry modes, the preference going to the highest degree of commitment. The reason for this preference was to assist the study of internationalization process that is manifested in foreign location and foreign entry mode, considered “the most valid representation of what occurs in internationalization” (Jones and Coviello 2005, pg. 289)

As a result of this selection process and the willingness of the companies to participate in the research the following three cases have been selected:

- Magyar Olaj- és Gázipari (MOL) Group is an integrated energy company being active in the exploration and production of crude oil, natural gas and gas products, refining, transportation, storage and distribution of crude oil products at both retail and wholesale, transmission of natural gas, and production and sales of olefins and polyolefins. At the end of year 2009 the company had a dispersed shareholder structure and was one of the largest corporations in Central Europe.
- OTP Group is a retail-focused universal bank active in Central and Eastern Europe and Russia. In 2009 OTP Bank was the largest retail bank in Hungary, Bulgaria and Montenegro, with market shares of 20%, 13% and 37%, respectively. At the end of year 2009 the bank had a dispersed ownership structure of mostly private and institutional (financial) foreign investors.
- Gedeon Richter is a Central-Eastern European multinational pharmaceutical company with growing presence in the CIS nations, the European Union and the United States of America. Gedeon Richter is a generic drug company since the majority of its revenues derives from selling generic drugs and generic APIs (active pharmaceutical ingredients). The company performs original pharmaceutical research as well, focusing exclusively on the identification of active ingredients that are effective in the

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3 The argumentation was presented in the subchapter 2.4.3.
4 One of the selected companies declined to participate in the research.
5 Before HVB UniCredit merger
treatment of diseases of the central nervous system, primarily molecules that are suitable for the alleviation of chronic pain, schizophrenia and anxiety. At the end of 2009 25% of Company shares were in the hand of the Hungarian Privatisation and State Holding Company (ÁPV Zrt.), 12% owned by domestic investors and the remaining 63% owned by private and institutional (financial) foreign investors.

Why these cases are relevant?

With respect to the international empirical literature they are relevant because these firms differ from the multinational companies originated in developed markets as well as from the MNCs originated in developing countries in several respects. First of all they are non-traditional MNCs because they have grown to be multinational in a transformational country parallel with the economic development and adoption of free-market system. They have started to internationalise having relatively scarce resources and management capabilities, with “Eastern type” company image on the international markets. They are not “born global” or “international new ventures” because they are traditional, formerly state-owned companies and not international from inception. They are independent, locally managed and controlled firms that became multinational not because they were contractual partners of foreign firms as the so called “dragon multinationals” from the late-developing countries or because they realized the foreign owners’ strategy to invest abroad (see the term indirect investor) and not even because they were able to exploit their cost advantages and the knowledge to adapt advanced technology very quickly to the local conditions as the third world multinationals did. Consequently these cases are relevant to analyse.

The relevance of these companies for the Hungarian economy is indisputable if we consider that these firms are among the top 25 transnational companies in Central and Eastern Europe (UNCTAD 2003) as measured by their foreign assets and the transnationality index⁷. They represent the three regionally significant MNC’s from Hungary owning several foreign subsidiaries. They play a crucial role in Hungary’s economy not only due to their regional but also due to their domestic importance: they are among the largest companies as regards net sales, number of employees and operating profits (Figyelő TOP 200). Each of them is quoted on the Stock Exchange and in Hungary they are considered blue-chip companies. The above detailed similarities between these firms facilitate the comparison of their experiences on international markets.

It is no doubt that the generalization of the results about the internationalization of Hungarian multinationals would require a large amount of cases. However the depth of process data and the aim of understanding the complexity of internationalization process tend to limit the number of cases that can be analyzed. Further on, the selection criteria impose some limitations as well. The companies are the largest indigenous companies with foreign investment, hence, the internationalization of smaller firms may differ from what we observe here because of the additional challenge that a small size brings to setting up a foreign subsidiary. Moreover the firms selected followed a particular development process starting as a traditional, formerly state-owned enterprise, lately privatized and restructured and even

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⁶ APIs are the chemical substances that are used in the manufacturing of drugs.

⁷ The transnationality index is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.
though they became privately owned public companies they managed to remain independent, management-driven companies. Firms characterized with a different development process – such as contractor MNC’s that went international in order to remain competitive as suppliers of foreign partners– may follow a different path during their internationalization. I discuss this idea in more detail in the limitations section.

iii. Data collection and preparation

The process of data collection and preparation is summarized in the following figure:

**Figure 1. Longitudinal data collection and preparation**

The collection of data about the process of internationalisation of these companies was started in 2003 with a pilot interview at one of the case-companies. Based on this interview and indirect data collection, a case study was performed and the interpretations were presented at The Third International Conference “International Business in Transition Economies” in Riga (Incze 2004a). A standardized interview guide was developed in order to collect comparable information on each case and was used during the subsequent interview-series performed in 2004. Interviewees included members of top management and other managers involved in international business. Interviews lasted between one and three hours. Secondary data were also examined, including annual reports, websites, promotional materials, press releases and newspaper articles. After this phase a comparative case analysis was carried out to identify major themes and concepts emerging from the data. The results were presented at Academy of International Business Annual Conference in Quebec (Incze 2005). Data collection continued in 2005 and 2006 with a series of in-depth interviews adapted to each firm’s specific situation including the adjustments made after the previous data collection phase. The purpose was to follow the ongoing...
process, to refine and validate the information obtained earlier. Secondary data have been collected continuously. Based on the data collected so far the framework for analysing the process of internationalization was developed. In year 2007 another interview series was performed. The information collected during company interviews were cross examined during an interview performed with an external consultant. During this long process of data collection and preliminary analysis the idea was to focus the data collection on emergent themes yet still collect additional data.

iv. Analytical framework and research questions

Based on these conceptual standpoints and the empirical data collected during longitudinal research, a framework for data analysis (Figure 2) has been built.

Figure 2. Framework for analysing the process of firm internationalization.

Since the objective of this dissertation is to describe and understand the time-based dynamics of internationalization behavior of emerging market firms contributing to a time-based processual view of internationalization, time is the primary conceptual dimension to which internationalization behavior is tagged. In this dissertation the firm internationalization is analysed for a period of 20 years, starting from 1990, that is the starting year of free-market operation for companies from transformational countries and ending in 2009, that is the ending year of the study.

Based on Jones and Covielo (2005) each moment in which firms entered or exited a country became an internationalization event (le), whereas periods between became gaps measured by the number of years
during which no new Ie occurred. As regards foreign location the evolution of the number of foreign countries and the country distance\(^8\) were considered. We mapped operation mode within mode subcategories such as export, contractual modes (licence, franchise, strategic alliance, joint-venture) and foreign subsidiary (acquisition and greenfield) indicating the degree of involvement in foreign markets. It should be noted however that the pattern of internationalization can be followed by other indicators as well such as the size of the investment in the market (Johanson and Vahlne 1990), the range and extent of value added (Kutschker and Baurle 1997), the strength of the links with the foreign markets (i.e. the degree of vertical integration) (Johanson and Vahlne 1990, Kutschker and Baurle 1997) etc. We selected location and mode due to the availability of data and to facilitate comparability across cases.

**Context** at various levels shape firm internationalization. In order to build an explicit link between the pattern and the context during time we are looking at events, actions and interactions over time that shape the time-based internationalization behavior. In this way we are able to follow and understand the complex relationships during internationalization process. In this dissertation three specific contextual levels are considered: environmental level, firm level and corporate entrepreneurial level:

- Environmental level refers to the global/regional, national and industry environment influencing the internationalizing firm.
- Firm level refers to resources & capabilities as well as overall strategies and actions characteristic to the internationalizing firm.
- Corporate entrepreneurial level refers to the characteristics of individual decision makers such as attitudes towards internationalization, international knowledge and experience, interpersonal relations.

**Time based internationalization behavior** is analysed along the following specific research questions:

1. When the company initiated the first internationalization event and what influenced the timing? - ENTRY
2. How the number and distance of countries and the number and range of entry modes evolved over time and what influenced the pattern? – DIVERSITY
3. How quickly the company expanded into international market and what influenced the rhythm of internationalization? – PACE
4. What internationalisation stages can be identified over time and what are the contextual conditions that shape these stages? - STAGES

\(^8\) The notion of country distance reflects the psychic distance (Johanson and Wiedersheim-Paul 1975) or more specifically the cultural (C), administrative (A), geographical (G) and economic (E) distance between the countries summarized by Ghemawat in the CAGE framework (Ghemawat 2001).
5. RESULTS OF THE DISSERTATION

v. Results based on literature review

- The models describing and explaining firm internationalisation put forward four different influencing factors: external environment, internal firm environment, characteristics of decision-makers and entrepreneurial orientation. In fact these contexts indicate the different perspectives of the analyses.
- However each perspective put forward an important framework to analyse internationalisation, none of them is able to give a total picture and explanation of the internationalisation process.
- Besides reviewing the literature on the international expansion of companies with traditional home base a review of internationalization of companies form non-traditional home-base was performed as well. Due to the objectives of the dissertation priority was given to the literature about internationalization of companies from transforming Central and Eastern Europe.\(^9\)
- Literature on the phenomenon of internationalisation and foreign direct investment of Hungarian companies have been performed as well.

vi. Results based on empirical research

- The first level of research output is the chronological description of the internationalization process of the three Hungarian companies. Background descriptions of company histories, their field of industry and basic internal firm characteristics were provided to give context to the chronology of internationalization process. This longitudinal study covers a period of 20 years starting from year 1990 till 2009. The process of internationalisation is considered from the first cross-border operation of the firm but detailed analysis was performed referring to the last 20 years of operation in free-market system.
- The second level of research output is derived from the content analysis of the chronology and interpretation of the dynamics of internationalization along the proposed analytical framework.

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\(^9\) In this dissertation these are the companies that have their home-base in the 10 EU accession country (excluding Cyprus and Malta).
Summary of research results

- Firm level factors such as availability of resources and knowledge and internal processes such as organizational transformation and firm overall strategy are critical in the international development of the firm.
- Environmental factors such as industry profitability, home-market competition, opportunities and competition on international markets as well as global macro-economic environment are always present moderating factors of internationalization.
- Corporate entrepreneurs’ attitude towards international markets and risk-taking behavior are the most important contextual factors in the international development of the firm. Their influence in speeding up the process is visible no matter if this is coming from an entrepreneurial vision or the defensive act of keeping the managerial control.
- The "typical" starting point of internationalization was after restructuring reflecting available resources, including cash, human capital, and knowledge.
- It was common that each company started in a close market with low commitment.
- As regards foreign market entry modes there are patterns in the data, but they reflect intensity of activity and occur at event stages specific to individual firms rather than in any particular, generalized sequence.
- The considerable variation in the patterns and processes of internationalization can be accounted for entrepreneurial and contingency factors, such as internal firm development, external networks development, and strategic growth lead by the corporate entrepreneur.
- The results suggest that the specificity of internationalization of indigenous firms from transformational countries are a phenomenon of the time marked by privatisation opportunities that shaped in a great deal the pattern of internationalization.
- Internationalization of the top indigenous companies from Hungary follows a gradual process but this is at an accelerated pace. The pattern of internationalization - the use of multiple modes of market entry and the timing of the stages of entry, appears to be diverse across the cases in the study.
- What are of particular interest are the contextual factors driving internationalization and the inter-relatedness between them.
- Patterns of international expansion, at least in the early stages of firm growth, are likely to reflect entrepreneurial decisions based on the characteristics, capabilities, and resources of the firm.
III. REFERENCES


IV. PUBLICATIONS RELATED TO THE TOPIC OF THIS DISSERTATION

i. In Hungarian

Book chapters, monographs


Conference papers


ii. In English

Book chapters, monographs


Conference papers


Incze, E. (2005): The Challenge of Latecomers: an explorative study of foreign market entry-strategy process of selected companies from Hungary, konferencia előadás, Academy of International Business Annual Conference, Quebec, Canada.


Case-study