

RODERICK MARTIN

Multinational Corporations and National Business Systems: Integration or Separation

© Central European University

The views in this report are the authors' own and do not necessarily reflect those of the Center for Policy Studies, Central European University.

CENTER FOR POLICY STUDIES
CENTRAL EUROPEAN UNIVERSITY

Nador utca 9
H-1051 Budapest, Hungary

cps@ceu.hu
<http://cps.ceu.hu>

Working Papers reflect the on-going work of staff members and researchers associated with CPS. They are intended to facilitate communication between CPS and other researchers on timely issues. They are disseminated to stimulate commentary and policy discussion among the international community of scholars.

MULTINATIONAL CORPORATIONS AND NATIONAL BUSINESS SYSTEMS: INTEGRATION OR SEPARATION

Roderick Martin

ABSTRACT

The working paper analyzes the relations between multinational corporations and the Hungarian business system. Within the context of globalization, the paper outlines the strategies and organizational structures adopted by multinational corporations. It concentrates on two sectors which have been major sources of employment in Hungary, motor vehicles and electronics. The paper also analyzes the business system in terms of the role of the state, national corporations and the business culture. The paper views multinational involvement in Central and Eastern Europe from an international rather than a regional perspective, identifying the ways in which the interests of multinationals and states coincide, and the ways in which they differ.

CONTENTS

1. Introduction	5
2. Multinationals and national business systems: the multinational perspective	10
2.1. Multinational strategies	11
2.2. Multinational organizational structures	17
3. National business systems and multinationals	20
3.1. The state and multinationals	21
3.2. National business systems	24
3.3. Economic culture	26
4. Conclusion: multinational corporations and national business systems	28
5. References	33

Preface

This paper was prepared during the tenure of a Research Fellowship at the Center for Policy Studies at the Central European University in Budapest. I am very grateful to the Center for providing such a congenial and welcoming environment for carrying on research and writing. I am especially grateful to Violetta Zentai for arranging my stay, to Lilla Jakobs for carrying out all the arrangements quickly and expeditiously, and to Andrew Cartwright for reading an initial draft of the paper through and making very valuable comments.

Roderick Martin
May 30, 2011

1. Introduction

Since the 1980s, globalization has become a common place, researched from a wide range of disciplines – history, political science, sociology, geography, management as well as economics (Jones, 2007). According to Anthony Giddens, a globalization enthusiast, globalization is ‘the worldwide interconnection at the cultural, political and economic level resulting from the elimination of communication and trade barriers’, which is leading towards the international ‘convergence of cultural, political and economic aspects of life’ (Giddens, 1999). For Giddens, globalization is here. Indicators of globalization include the increasing ratio of world trade to GDP, growth in international communications, both physically by international travel and electronically, through internet communications, international cultural convergence. In the economy, global capital flows, multinationals’ global sourcing and international production systems, global markets for standardized products, and international competitive pressures have promoted globalization (Kogut and Gittelman, 1998). This process has been enabled by technological change, especially the transformation of information and communications technologies (ICTs) through computerization from the late 1970s, a new ‘socio-technological paradigm’ (Dosi, 1988:224-5), and by increasing standardization of business practice. Management consultancies and accounting firms, committed to ‘international standards’ of corporate governance and financial performance, have been a further globalizing influence.

Globalization has affected Central and Eastern Europe (CEE), as other regions. The region has received high levels of international capital investment, from both public and private sector investors. Countries in the region have received investment in infrastructure from international financial institutions, especially the World Bank, the European Bank for Reconstruction and Development, specifically established to facilitate the economic development of the region, the European Union and individual national governments. In Hungary, the EBRD financed investment in infrastructure (telecommunications, roads, railways, Budapest public transport), privatizations, the development of small and medium sized enterprises, and financial institutions, including during the 2008-10 financial crisis (EBRD, 2010). By the end of 2009, the FDI stock in Hungary reached EUR 60 billions (ITD, Hungary, 2010). The region has received capital investment from private financial institutions, pension funds and investment trusts, and from multinational corporations. The significance of international trade for national economies has increased: for Poland, the ratio between international trade and GDP increased from 60.67 in 2000 to 83.94 in 2008, for the Czech Republic from 129.77 to 149.63, and for Hungary from 149.79 to 163.32 over the same period. Comparative figures for the UK and the US were 57.10 in 2000 for the UK and 60.97 in 2008, and for the US 25.95 in 2000 and 30.41 in 2008; larger countries, with larger domestic markets and higher levels of GDP, naturally showed a lower ratio (OECD, 2010). Multinational investment in production facilities in CEE, especially in motor vehicles and electronics, including office equipment and mobile telephones, led to the integration of CEE enterprises into international production networks.

Yet a nuanced analysis of globalization is necessary (Hirst and Thompson, 1999; Held and McGrew, 2007). The process is uneven, between areas (economy, politics, culture) and within specific areas. Globalization is more dominant in the economy than in politics; political parties remain national, sensitive to issues of national sovereignty. Moreover, the same trends may be interpreted in different ways. For example, international migration results in large ethnic minorities in metropolitan countries, who continue to identify with their country of origin as much as, or more than, with their country of residence, and maintain national cultural identities: is this an indication of globalization? In industrial relations, Katz and Darbishire speak of ‘converging divergences’ (2000), similar patterns of differentiation amongst national systems. This paper distinguishes between three stages of economic internationalization, with globalization as the most fully developed form. The first stage is internationalization through the logic of exchange, with expansion in international trade. The second stage is internationalization through the logic of production, with integration of value

chains and production systems across national boundaries. The third stage is globalization, with corporate strategies determined independently of national considerations (Gordon, 1996). Changes in the level of international trade provide evidence to support theories of globalization according to the logic of exchange, with massive expansion in the international transfer of goods and services since the 1980s. There is also considerable evidence to support the globalization of production (e.g., Jones, 2005). There is only limited evidence to support the full globalization thesis, the irrelevance of national location, in view of the continuing importance of the location of corporate headquarters and national origin for strategic decision making and for research and development (for R&D see e.g., Archibugi and Michie, 1997: 187). Competitive pressures produce tendencies to globalization in production, with corporations seeking to reduce production costs through economies of scale or of scope in production, as well as market expansion. But the same competitive pressures may lead to local diversity of products, because of the need to adjust to national variations in conditions and in consumer preferences.

Against the background of an overall concern with globalization, this paper examines the relation between multinational corporations and national business systems in CEE, with particular reference to Hungary. It analyses globalization in practice. In this paper, ‘multinationals’ are companies headquartered outside CEE operating internationally: companies headquartered in the region and operating internationally, such as MOL, the oil company, are referred to as ‘regional multinationals’. The term ‘business system’ refers both to state institutions, policies and practices regarding national economies, and to the institutions, policies and practices of business itself. The sphere of production is especially critical for understanding globalization empirically, since it is the sphere in which globalization pressures have been most transformational. International investors and multinational corporations have been the major engines of economic globalization. However, although international investment decisions and international production systems may be conceived globally, they are conceived by nationally headquartered corporations and implemented with national resources. Capital may be conceptualized as an abstract, de-materialized, symbolic medium of exchange, without physical form or location, but capital invested in production systems is not. Moreover, the globalization of international standards in theory may be national in practice, as formal commitments to international standards and practices may be operated differently in practice.

Multinationals have been major agents of economic transformation in CEE, as the primary source of new capital investment, the main channel for the transfer of both physical and social technologies, and the major contributors both to regional exports and imports (Martin, 2011, for full discussion). As the then Hungarian finance minister, Zsigmond Jarai, stated in 1998, foreign capital was ‘the only way to achieve comprehensive economic change and privatization’ in Hungary (*Business Central Europe*, December 1998:16). The precise role played by multinationals in transforming CEE economies differed between countries and between sectors. This paper investigates the relations between multinationals and national business systems focuses on Hungary, especially the sectors in which multinationals have been most active, motor vehicles and electronics, with limited comparative reference to the Czech Republic, Poland and Romania. Amongst major CEE economies, Hungary adopted the most positive approach to foreign investment in the early 1990s, for example through prioritizing privatization by sale, and initial investment grants and allowances for foreign investors.

The major multinational companies operating in Hungary were German. In manufacturing, the VW Group, with the Audi facilities in Győr, was the largest foreign manufacturing employer in Hungary in 2010, with 10,000 employees. Other German manufacturing multinationals included BMW, Bosch, Siemens, with the large Mercedes plant under construction in Kecskemét. In utilities, Deutsche Telekom controlled Magyar Telekom, the landline and major mobile provider in Hungary; German companies controlled gas and electricity providers. US multinationals included GE, which purchased the long established light bulb manufacturer Tungsram and converted it into GE Lighting. The Dutch electronics manufacturer Philips operated three plants. Japanese multinationals included Suzuki in

motor manufacturing and Sony in consumer electronics. The Finnish mobile phone multinational Nokia operated a major plant in Komárom, in North West Hungary. Korean multinationals included Samsung and Daewoo. Chinese companies included the chemical multinational Wanhua, through its acquisition of control of Borsod. The names in industrial parks throughout Hungary were similar to those found throughout Western Europe. In distribution, the major supermarket chains were TESCO, the Austrian Kaisers and the French Carrefour.

Multinationals are now fully embedded in the economies of CEE: the issue is not their presence or significance but their precise role. Multinationals may act in isolation from national business systems, responding to global strategic concerns, and playing little role in local economies, national discussions or national trading relations. Alternatively, multinationals may be integrated into national business systems as full participants. At one extreme, multinationals operate in isolation from national business systems, concentrating solely on contractual obligations and the contractual performance of supplier companies, as, for example, in outward processing arrangements between West European (UK, German and Italian) clothing retailers and manufacturers and their suppliers in the Romanian clothing industry, (Graziani, 1998; Lane and Probert, 2009). Under outward processing arrangements, multinationals have little involvement with national business systems, except insofar as they impact directly upon contract performance, since the divestment of risks to suppliers is a major advantage of outward processing arrangements for multinationals. At the other extreme, multinationals may have intense, close relations with national governments and businesses, for example where green-field investments require substantial public investment in local infrastructures. Daimler-Benz canvassed several CEE governments regarding possible financial assistance for its potential investment in a new manufacturing facility to produce Mercedes-Benz cars in CEE, before deciding to build the new facility in Kecskemet, Hungary. Hungarian national government and local government officials promised major investments in infrastructure. Symbolizing this close relationship, plans for the new plant were unveiled in a joint ceremony in the Hungarian parliament in October 2008, with the signature of an agreement between the Chief Operating Officer of Mercedes-Benz and the Hungarian Minister for National Development and Economy, (then Gordon Bajnai, later Hungarian Prime Minister). Whether close or distant, relations may be collaborative or conflictual.

On the other side, national business systems may be exclusive, seeking to limit multinational access, with governments hesitant to encourage multinational investment because of fears losing control over 'the family silver', and locally owned corporations regarding multinationals primarily as rivals and competitors, as in the Czech Republic in the early 1990s, during the first phase of privatization, and the attempt to develop a Czech 'national capitalism' (Myant, 2003). Or national systems may be inclusive, with governments seeking to attract multinationals with favorable taxation arrangements, and national enterprises eager to encourage inward investment and to acquire contracts as suppliers. Hence, national investment offices were established to encourage inward investment, as the Hungarian ITD. Sub-national regional governments may also play a role in business systems, for example in providing necessary transport infrastructure, or local inducements for inward investment, as Győr successfully sought international investors.

Relations between multinationals and CEE national business systems were influenced by features of both the multinational and the national business system, and by the contexts within which their interactions occurred. Contacts between multinationals and national business systems were formal and informal, institutional and behavioral. Such contacts occurred at corporate level or, more frequently, between multinational subsidiaries or joint ventures and parts of the national business system. The senior international corporate level was involved on symbolic occasions, such as plant inaugurations, in decisions central to the overall corporate strategy, such as in major plant developments in CEE, or initial country entry strategies, or in response to specific crises. Multinational subsidiaries are defined here as 'semiautonomous' (Birkinshaw and Hood (1998: 780)) entities, capable of making their own decisions but constrained by the authority of head office managers. Joint ventures are firms in which

multinationals share equity ownership with other entities, and which may or may not involve majority control by the multinational. Subsidiaries were responsible for routine interactions.

The national business system incorporates national government, sector and firm level institutions, such as chambers of industry, employer's organizations and trade unions. At government level, the international and national political context conditioned relations with multinationals. In the early 1990s, the World Bank, the IMF and the European Bank for Reconstruction and Development (EBRD), pressed CEE governments to open access to multinationals, the free movement of capital being increasingly required as a loan condition (Pop-Eleches, 2009); multinationals were the exemplars of the new capitalist order. Such requirements were institutionalized in the 1993 Copenhagen conditions for EU accession. National political contexts sometimes encouraged openness to multinational influences, as in Hungary in the 1990s, and sometimes discouraged it, as in the Czech Republic during the same period. Within the more narrowly defined business system, the structure of ownership, especially the extent and form of privatization, and the degree of marketization influenced access for multinationals. Where firms remained tightly coupled to the state, through ownership or financial dependence, or to each other through dense network relations, bank financing and relational rather than market oriented inter-organizational links, the business environment was uncomfortable for multinational involvement, as in the Czech Republic in the 1990s. At sector and firm level, the extent and familiarity of domestic firms with international peers and competitors and the technology gap between domestic enterprises and multinational subsidiaries, which affected the absorptive capacity of indigenous firms, influenced the character of relations with multinationals, in addition to direct commercial considerations (Meyer and Sinani, 2008).

The relations between multinationals and national business systems were not static, changing in response to changes in the strategic interests of the corporation, and to developments in national business systems. Multinational managers, like political leaders, responded to the political euphoria following the 1989 political revolutions, awakening general interest contrasting with the socialist period, when only a small number of specialized firms were interested in CEE. In the early 1990s, multinationals sought two objectives. The first was market access, which was secured rapidly in form, if hampered by non-tariff barriers. The second was investment opportunities in privatization projects, provided ownership rights could be guaranteed. Hence, international investment expanded rapidly in Hungary, where governments sought to privatize assets by sale to strategic investors, and where the prices paid reflected the sellers' anxieties to sell. In contrast, the Czechoslovak policy of voucher privatization excluded foreigners. In addition to negotiating on price and terms and conditions such as guarantees of investment levels and employment, multinationals sought to secure advantageous market access through restrictions on market entry by competitors. Privileged market access was especially important for multinationals in mature market sectors, such as motor vehicles, during the early stages of the transformation, but also retained importance during the later stages of the transformation for companies investing in utility privatizations, telecommunications and banking (Meyer and Jensen, 2005:133). Priorities changed later, when the logic of exchange was supplemented by the logic of production, raising the importance of enterprise capabilities and performance.

National business systems themselves changed in an uneven process of transformation from the structures of state socialism. During the initial phase of post socialist capitalism, firms formed systems of 'heterarchy', with complex 'recombinant' inter-firm networks, involving links amongst firms, between firms and banks, and between firms and state institutions, based on inter-corporate ownership, formal agreements, and informal understandings (Grabher and Stark, 1997; Stark and Bruszt, 1997; McDermott, 2003). Such recombinant networks posed major obstacles for multinationals, since the relationships amongst network members and their economic behavior were opaque rather than transparent. Understanding networks required background information on institutional and personal histories, rarely available to external multinationals. The period of heterarchy proved transitory, changing more rapidly and more thoroughly in some countries, Hungary, than in others, the Czech

Republic (Stark and Vedres, 2006; McDermott, 2003). The gradual disintegration of recombinant networks, and increasing marketization of ownership and of production relationships in Hungary, especially after 1997, simplified ownership structures, encouraged concentration, increased the transparency of economic behavior and thereby eased the transfer of corporate assets into foreign ownership (Stark and Vedres, 2006). The simplification of ownership arrangements which occurred from 1997, including increases in foreign ownership, progressively accelerated the marketization process. Further marketization in turn fostered loosely coupled business systems, with more flexibility and greater openness to multinational influence than tightly coupled systems, providing more opportunities for multinational incorporation and active participation in national business systems. The more rapid progress of marketization in Hungary than in the Czech Republic or Poland provided greater potential for multinational involvement in the national business systems, in turn accelerating the process of marketization. In contrast to Hungary, the secondary transfer of shares in privatizations resulted in consolidation of ownership by banks and financial institutions in the Czech Republic and in ownership by other domestic enterprises in Poland, complicating and slowing down the process of foreign investment (Błaszczuk et al., 2003).

In sum, the strategic interests of multinationals and national governments were both complementary and conflictual, governed by both economic and political considerations. For multinationals, CEE offered new markets and a possible base for low cost production facilities. For CEE governments, multinationals were the most promising source of capital investment and technological know how. The relations between them occurred at several levels, both national and at the level of the business system, including sector and enterprise levels. With increasing marketization, and the partial de-politicization of regional economies, relations between multinationals and CEE regional economies became more similar to those of Western Europe, whilst retaining specific sensitivities reflecting recent political and economic histories.

This paper outlines the factors affecting such relationships, within the context of globalization debates. It is divided into four sections. The following second section views the issues from the perspective of multinational corporations. The section outlines the strategies followed by multinationals investing in CEE, and the structural factors which stimulated, or inhibited, full engagement with regional business systems. The paper views CEE experience in the context of multinationals' international strategies, not as a unique regional experience. The section also documents the differences between sectors by examining briefly the experience of companies in the motor car, electronics and pharmaceutical industries. The paper argues that multinational engagement was conditioned by two factors. The first factor was corporate strategy, the result of national influences at the multinational place of headquarters location, the interests of corporate management and the corporation as a corporate body, as well as competitive market conditions, varying between sectors. The second feature was organization structure, especially the degree of subsidiary autonomy: the higher the level of autonomy, the greater the scope and potential for national involvement. Some multinational subsidiaries were tightly constrained by the corporate head office (Coca Cola), others were granted significant autonomy (ABB); greater local autonomy enabled more extensive local linkages, both at government and at business unit level. The third section of the paper sketches national business systems at three levels: the state, the business system as a system, and the economic culture. The concluding fourth section returns to the issue of the relations between multinationals and the national business system, and the balance of dependences between the two sides. Overall, the evidence suggests that multinationals acted independently of national business systems, rather than as integrated participants - cathedrals in the desert rather than local parish churches for the community.

2. Multinationals and national business systems: the multinational perspective

This section analyses the overall strategies pursued by multinationals, the structures established to coordinate and control their strategies, and the processes of implementation. Following Porter (1980), multinationals follow one of three overall strategies, cost leadership, differentiation, or focus. In establishing the structures to coordinate and control their strategies, multinationals balance the requirements of central control and brand integrity against the needs for local responsiveness. The balance differs between industrial sectors and product markets. The balance struck between central control and local responsiveness is also affected by a range of organizational factors, including national origin, mode of subsidiary acquisition and the mandate allocated to the subsidiary by the corporation.

Relations between multinationals and national business systems had a dual character. On the one hand, financial, technological, operational, and market ties linked multinationals and their subsidiaries to the core international business system, of which CEE forms a small part. The major sources of finance for multinational CEE operations were international, initially through direct international investment and increasingly via intra-company loans and transfers from international owners; loans replaced equity and foreign direct investment. Local capital markets and national bank loans and credit played little part. Technology was internationally sourced, heavily reliant upon corporate centers for R&D and, with important exceptions, for process innovations; private sector expenditure on R&D in the region was very low (Dyker, 1997). Materials and components were sourced internationally. The major sources of inputs (raw materials, components, subassemblies) were international, with high levels of imported items incorporated into subsequent exports from the region. Regional suppliers played only a marginal role, and were themselves often subsidiaries of other foreign multinationals. Production systems and supply chains were built and operated on a global, or at least international, basis, and in the short run required foreign technical support. The major product markets were also international, with much higher levels of exports than domestic sales and than domestically owned enterprises. Human resource issues were traditionally handled with a limited degree of decentralization to national level for senior level employees, whilst allowing greater decentralization in the handling of lower level employees (Scullion and Linehan, 2005: 41-2). Local employment relations policies were increasingly modeled on international practice, with time limited contracts, financial and functional flexibility and higher salaries, as exemplified in GE's practices following its takeover of the Hungarian lighting company Tungsram and its transformation into GE Lighting. Multinationals hesitated to join employers' associations, involved in pattern setting collective bargaining arrangements, or to participate in joint arrangements for lobbying governments, in Hungary (Comisso, 1998: n.p.). Labor markets, especially at the higher managerial level, were international. Expatriate managers defined their careers in terms of international career paths, expecting to serve only a short time (two or three years) in the country. Regional managers aspired to careers abroad, or at least to remain with the multinational to maintain a higher income than their peers employed by locally owned enterprises. To secure their route to the heavens, multinational regional managers enrolled on MBA programs, seeking international certification.

On the other hand, multinationals were necessarily embedded in national systems, and became increasingly sensitive to national expectations over a period of time. At a minimum, even cathedrals needed sewerage, waste disposal, access to public utilities and efficient means of communication. Multinationals were integrated into national systems through their requirements for infrastructure: electricity, gas, water, rail, road, and telecommunications. Multinational complaints about the inadequacies of the national telecommunications infrastructure were widespread in the early 1990s, and led to pressure for accelerated international investment, both public and private. Multinationals were also sensitive to utility prices, with prices initially kept low for individual consumers at the expense of commercial users, as during the socialist period. Multinationals depended upon national governments

for political support, appropriate legislation, favorable or at least equitable exercise of state administrative discretion, the creation of a secure legal framework and recruitment of a judiciary capable of enforcing contracts fairly. The protection of the property rights of minority investors was particularly important for enabling initial portfolio investment by institutional investors and their agents. The effective utilization of multinational investment in production facilities depended upon recruiting a competent and committed labor force. The education level, qualifications, skills, and working culture of the labor force depended upon appropriate state policies and local provision, as well as upon the training and resources provided by the multinationals themselves. Multinationals obtained financial benefit from state funds in the form of investment grants, tax allowances, and special arrangements for financing investments in research and development, sometimes on more advantageous terms than local firms. Multinationals were also linked to other national firms, which supplied subassemblies and parts, and specialized professional support when required. Other firms, as well as final consumers, also provided product markets, even for export oriented multinationals.

2.1. Multinational strategies

Multinational strategies and the structures established to implement them provided the threads linking multinationals and national business systems together. Porter's classic typology of generic strategies for competitive advantage distinguished between cost leadership, differentiation and focus (Porter, 1980:40-41). Different strategies had different implications for relations with national business systems. Cost leadership required sustained capital investment and access to capital, products designed for ease of manufacture, process engineering skills, close supervision of labor, and low cost distribution systems. Organizationally, cost leadership involved tightly structured organizations and control systems, frequent reporting arrangements and quantitative incentives. Differentiation required strong capability in basic research, long experience in the industry or the possession of unique skills, corporate reputation for quality, strong marketing skills, product engineering, and creative flair. The strategy required recruitment of creative professionals, sensitive qualitative incentives and close cooperation between functions. Focus strategies involved a combination of the requirements of the cost leadership and differentiation strategies, with a direct concentration on the specific needs of the chosen market. The three broad strategies were relevant to international operations, as well as to domestic. Cost leadership strategies were more likely to lead to investment in CEE than either differentiation or focus strategies, in view of the resource endowments of CEE. Multinational strategies were long term but not permanent, required to change in response to competitive pressures, for example with increasing sophistication of products, as in mobile telephones, with consequent implications for relations with regional economies, especially regarding labor issues.

Within the corporation's overall strategies of cost leadership, differentiation, and focus, the internationalization strategy was determined by the trade off between standardization and national responsiveness, linked to the nature of product markets and to customer demands. Standardized products, and centralized production facilities, were associated with cost leadership, diverse products and decentralized production facilities were associated with differentiation. Where substantial economies could be derived from global standardization and size, corporations adopted one of two alternative types of strategy. The first was 'global' strategy, when the need for localization was low, as in standardized products such as razor blades. Where the global corporation produced standardized products for international distribution, only marketing needed to be handled locally, as, for example, Coca-Cola. Production was concentrated, the location determined by comparative advantage - labor costs, the availability of raw materials, or, in capital intensive production, the cost of capital. The second was 'trans-national' strategies, when the need for localization was high, as in some categories of food manufacture. In trans-national strategies, corporations sought to standardize production

arrangements whilst individualizing customer facing elements. Management consultancies were the exemplars, combining global information exchange with local knowledge and connections, often through hiring regional citizens.

Multinational business practice was less coherent and tidy than Porter's analyses suggest, involving managing the tension between different, often contradictory, requirements: achieving scale economies in production needed to be balanced alongside satisfying the specific, local tastes of consumers. As in the food industry, 'There is not something like a global consumer in the food and beverage industry... There is only the local consumer... everything that the consumer can see, touch, feel or taste has to be local. That means that our products, our brands, and our communications will always stay local in order to stay relevant to the local consumer. On the other hand, of course, everything which the consumer does not see, taste, smell, or feel can be rationalized. It can be centralized. It can be regionalized and globalized. This is basically the balance we're trying to find' (CEO of Nestle, quoted in Inkpen and Ramaswamy, 2006: 60). The balance between minimizing production costs and meeting the specific requirements of national markets changes, with changes in technology and the costs of production, on the one hand, and in consumer preferences on the other. Moreover, firms consisting of diversified portfolios of companies, or companies producing a variety of products, needed to operate different approaches within the same organization.

In implementing international strategies, multinationals adopted a classic matrix between corporate coordination and configuration, in which the coordination of activities ranged from high to low, and the configuration of activities ranged from dispersed to concentrated (Porter, 1986). Efficient implementation of all three strategies involved coordinated corporate control and management. The specific organizational requirements differed between the three strategies. Overall corporate strategies, and the structures established to implement them, had obvious implications for multinationals operating in CEE. Strategies based on cost leadership were more likely to lead to investment in the region, especially for products where the cost of labor comprised a high proportion of production costs, since low labor costs were a source of national competitive advantage. Differentiation strategies required a different combination of factor endowments, less likely to be found in CEE, and more difficult to foster.

Global production systems, in which subsidiaries performed a defined and controlled role in corporate strategies devised centrally, were characteristic of the motor vehicle and electronics industries, especially for companies seeking high market shares in mass markets. However, differentiation strategies implied different organizational structures and arrangements. The model of global production systems had diminished relevance for sectors in which innovation and R&D played the central role, as in IT software and pharmaceuticals, with specific areas of knowledge and expertise widely distributed throughout the corporation. For such sectors, autonomy resided with groups possessing distinctive capabilities, whether at the corporate centre or in the subsidiary. Subsidiary autonomy was therefore greater where core capabilities were decentralized, especially where production methods remained difficult to standardize, as in software engineering throughout the 1990s, the costs of production were low, as in pharmaceuticals, or specialized R&D was dispersed internationally. Software engineering and pharmaceuticals were two sectors in which a small number of CEE companies achieved prominence, as with the Hungarian company Graphisoft in the use of software in architectural design or Richter in pharmaceuticals.

Motor vehicle manufacturers who established plants in Hungary followed cost leadership strategies, with low levels of discretion for regional subsidiaries. Motor manufacturers producing according to global production strategies, with major investments in CEE, included VW, General Motors/Opel, Ford, Renault-Nissan, and Fiat, with VW as the largest and most important in Central Europe. Japanese motor manufacturers were slower to invest in CEE, with Suzuki, the relatively small Japanese firm, being the only early Japanese motor manufacturer in Hungary. The assemblers followed similar strategies. Motor vehicle strategies sought high economies of scale and scope, with limited need for localization.

The subsidiaries acquired or established in CEE played a defined role in corporate internationalization, and possessed limited autonomy. Decisions were made at central, corporate level, with little responsiveness to the specifics of national concerns. Hence, the VW Group's strategy initially allocated Skoda the role of supplier of entry level vehicles to emerging markets. The VW Group proved unable to fulfill its initial undertakings to the Czech government on output, employment level, and capital investment, due to the recession of the early 1990s, leading to overt conflict with the Czech government. Following its purchase of Dacia, Renault-Nissan allocated a similar role to Dacia in Romania, with the production of Dacia/Logan cars as reliable, low priced entry level vehicles. Skoda's role within the VW strategy changed, with the Czech company's high quality standards, and Skoda's market share in Western Europe expanded beyond initial expectations. Because of the impact of Skoda developments on VW itself, with the potential cannibalization of VW markets in Western Europe, the Group was anxious to manage the expansion of Skoda cautiously, retaining control of strategic decisions. In global production systems, the human resource management approach adopted may also reflect the corporation's global strategic conception, for example in developing new techniques in CEE for use elsewhere in the corporation, as innovations at the Audi plant in Gyor, Hungary, and GM/Opel investments in Poland, were seen as trials for transfer to assembler plants in Germany (Meardi, 2002).

Multinationals operating in Hungary included components' manufacturers, such as Bosch, as well as final assemblers. In the 1990s, major assemblers followed similar production strategies, involving modularization, development of common platforms across several models, and 'de-virtualization', with increased outsourcing of component production (Radosevic and Rozeik, 2005). Such strategies involved increased rationalization and concentration of production, reducing employment in the assemblers themselves, whilst increasing it in first tier suppliers. The increased demands on component suppliers for more sophisticated components, requiring sub-assemblies (for example, braking systems) rather than single components, increased the importance of first tier suppliers. The increasingly sophisticated requirements led to reliance on heavily capitalized suppliers, with their own design capability, such as Bosch, rather than locally owned suppliers, even where components were sourced locally. First tier suppliers were initially scarce in CEE (Dyker, 2006). However, Western first tier suppliers followed Western assemblers, as the German headlight manufacturer Hella Hueck of Lippstadt followed VW's investment in Skoda in Mlada Boleslav, and Bosch developed major facilities in Hungary, supporting VW's Audi investment in Gyor.

Similar strategic considerations affected the **electronics industry**. Like motor vehicles, electronics is a global industry dominated by large multinationals. The sector covered a diverse range of products and services, ranging from consumer electronics, including televisions, to telecommunications, computers, ITCs to electronic industrial control systems. Different product markets had different dynamics, with industrial markets differing from final consumer markets. Consumer electronics included mature markets, such as televisions, and rapidly changing markets, such as mobile communications and computer games. It included mass markets and highly specialized industrial markets. Despite the range of products and markets, and the shifting contours of the sector, there were synergies between sectors that reinforced the competitive advantage of comprehensive rather than specialized firms (Chandler, 2002). Even small players sought to cover a wide range of products. The major multinationals were based in Japan, US, and increasingly Korea and China, with Philips as the sole European global electronics major. The Japanese dominated consumer electronics (Matsushita, Sony, Sharp and Sanyo), and challenged the US in computers, with Fujitsu, Hitachi, NEC, Toshiba and Mitsubishi. The US dominated computers: in 1996, six of the ten largest IT companies (by revenue) were American (IBM, Hewlett-Packard, Compaq, Electronic Data Systems, Digital and Microsoft) (Chandler, 2001:232), although US dominance subsequently declined, especially in 'mature' sectors such as P.Cs., with massive Chinese and Korean expansion. Corporate strategies focused on providing the conditions for radical product innovation, speed of new product development, and reducing production costs.

Although the generic concerns were similar to the motor vehicles manufacturers, the emphasis differed, with even greater attention focused on new product development, with faster product life-cycles; more differentiation, less cost leadership.

Organizational changes in the international electronics industry paralleled those of the motor vehicle sector, with corporate disintegration. Major multinationals increasingly concentrated on core activities, primarily R&D and marketing, seen as the definers of the brand, whilst outsourcing non-core activities (Sturgeon, 1998). The definition of non-core widened in the 1990s, extending from ancillary support activities such as catering and routine administration to the production of major product components. Hence, in computer manufacture, competing manufacturers used standardized chips, initially from Intel, within their own branded machines. Such 'turnkey production networks', pioneered by US companies in the 1990s, economized on production costs and secured access to the most sophisticated component R&D, whilst maintaining product differentiation (Sturgeon, 1998).

Within the context of such trends, CEE was a small but growing player. By 1999, the overall value of electronics production in CEE was \$26bn (Radosevic, 2002:1). Before 1989, the CEE electronics industry had developed very differently from the western industry, within the framework of CMEA (Committee for Mutual Economic Assistance) specialization. R&D focused on the defense sector, isolated from access to advanced technology by COCOM (Coordinating Committee for Multilateral Export Controls) regulations. Consumer electronics, such as televisions, were produced in CEE (especially Poland), and traded within CMEA, but to low quality (and aesthetic) standards, whilst access to information technologies was strictly controlled, both domestically and internationally. Telecommunications technology was especially backward, outside defense. The change of economic regime destroyed the regional companies that served domestic markets, unable to compete with the increased sophistication, and social cachet, of western goods, and undermined by the cheap prices of eastern imports. Electronics multinationals were attracted to CEE by its potential both as a regional market and as a manufacturing base, close to the EU markets. However, western electronics companies were slower to invest than western car manufacturers. Low incomes initially restricted regional markets for sophisticated consumer electronics, whilst technological backwardness and the absence of up-to-date sector specific manufacturing experience raised doubts about the ability of companies to match western production requirements. Moreover, the Japanese companies that dominated sectors of the electronics industry had traditionally maintained close control over production, and integrated production closely with R&D.

Nevertheless, by 1998 major western electronics companies had established substantial production facilities in CEE. Hungary was the most popular destination for electronics companies. IBM (US) subsidiary IBM Storage Products Kft. in Szekesfehervar was the largest company by net sales, manufacturing disk drives. Philips (Netherlands) manufactured a wide range of products, including televisions, domestic appliances, medical systems, communications systems, PC monitors, car stereo systems, hair clippers and foil shaver parts, in 17 factories. Sony (Japan) Hungaria Kft. manufactured audio devices, Nokia (Finland) Display Products Kft. manufactured monitors and subsequently mobile phones, Samsung (Korea) manufactured TV sets, Ericsson (Sweden) and Siemens (Germany) manufactured telephone exchanges (Radosevic, 2002:16). In Poland, the French company Thomson, Philips as well as the Korean company Daewoo, manufactured TV sets and components, Alcatel (Fr), Siemens (German) and Lucent (Netherlands) manufactured telecoms equipment; Philips also manufactured lighting and batteries; Motorola developed IC assembly plant on a green field site in Krakow. In the Czech Republic, Philips established three plants to manufacture TV picture tubes, components and electronic microscopes, Siemens established plants for telecoms and automotive electronics, and Matsushita established plants to manufacture TVs, electrical resistors and electromagnetic relays.

There were three types of companies in the sector. The first type was major multinationals, covering a wide range of products, of which the most active was Philips. Philips' subsidiaries were integrated into

the company's global strategy, but with greater structural autonomy than comparable US electronics multinationals. Secondly, the Finnish company, Elcoteq, was a smaller multinational, whose fortunes were linked closely with the fortunes of larger multinationals, especially Nokia. The two multinationals differed sharply from the third company, Videoton, a domestically owned privatized Hungarian company, which developed out of a major socialist era electronics company to become a small regional multinational. Whereas Philips and Elcoteq operated on a global basis; Videoton's international success depended upon agility in responding to technological and markets changes.

Philips, based in Eindhoven and with its major listing on the Amsterdam Stock Exchange, operated through three sectors, Consumer Lifestyle, Healthcare and Lighting. At the end of 2009, it had 127 production facilities in 29 countries, including three in Hungary: Szombathely, Szekesfehervar and Győr. The three facilities employed 4700 in 2009, representing a reduction of 1000 on a year earlier, as part of the company's global cost cutting. The Szekesfehervar plant manufactured electric shavers and vacuum cleaners, two intensely competitive markets. In 2009, four events symbolized the changes taking place in Philips in Hungary, with its transition into a manufacturing plant serving national as well as international markets, with lower employment levels and higher levels of investment in production facilities. First, a Dutch chief executive was succeeded by a Hungarian, Gabor Kovacs (Amcham, 2010). Secondly, Philips sales in Hungary increased, from EUR 264m to EUR 275m, despite the recession, indicating growth in the domestic market share. Third, the level of exports declined, from EUR 2.1bn to EUR 1.9bn, reflecting the overall fall in demand for consumer electronics during economic recession. Fourth, the company continued to invest in Hungary, EUR 25m, including the development of production of 3D televisions in Szekesfehervar.

Elcoteq is a medium sized Finnish multinational. The company produced consumer electronics – mobile phones, flat screen TVs – and systems solutions. The company defined itself as a 'Global Life Cycle Service Partner for high tec. product and service companies', operating as a 'low margin electronics manufacturing services business'. The company was organized into two strategic business units, consumer electronics and communications, served by a small corporate headquarters whose responsibilities included the development of new customers. Finnish owned and quoted on the Helsinki Stock Exchange, it was headquartered in Luxembourg; its major shareholders were a small group of Finnish managers, with little institutional shareholding. At its peak, Elcoteq operated eight plants in Europe – Estonia, Russia, Sweden and Switzerland, as well as Finland (Espoo) and Hungary (Pecs), with additional plants in the US (Texas) and China. The company had revenues of EUR 4.5bn and 18,000 employees at its peak, but in 2009 the number of employees dropped to 10,000 and net revenues to EUR 1.5bn. The company began operations in Pecs in 1998, manufacturing electronic communications devices, and expanded in 2000 when it purchased Nokia's plant manufacturing mobile telephones. The company employed 7000 at its Pecs plants in 2007. The company was badly hit by the recession in the electronics industry in 2009, and lost over a billion EUR in the first quarter of 2010; it was reported as having received financial support from Kaifa, part of the China Electronic Corporation (Brestow, 2009). The company consolidated its European operations in Pecs, selling its other European manufacturing facilities and expanding its operations in China. The company considered moving its headquarters to Pecs in 2010. Even in Pecs, the number of employees halved, to 3500 by 2010. In addition to the overall decline in its business areas, the company was hit by Nokia's decision to take mobile phone production back in-house. Elcoteq was not a major multinational. However, it was important in the context of the Hungarian industry, as a major employer in Pecs; its Board of Directors included Sandor Csanyi, the CEO of the major Hungarian bank OTP. It covered a wide range of activities in the industry, but, as a contracting company, it was dependent on decisions made by major multinationals. The company's corporate governance fitted the Hungarian context, with the majority of voting shares owned by members of management or former members of management, and the absence of international institutional investors.

Videoton was Hungary's largest privately owned company, with 9000 employees, assets of EUR 353m, and revenues of EUR 290m in 2008. The company operated through seven subsidiaries in five segments – automotive (45%), office automation (4%), industrial systems (18%), household appliances (irons, vacuum cleaners) (25%) and others. The company viewed the industrial services sector as the most promising for future development. Videoton was a contracting electronic services company, in 2009 the 5th largest in Europe. The company had plants in Szekesfehervar, its headquarters, and Kaposvar in Hungary, and Stara Zagora in Bulgaria (purchased in 1999), with facilities in the Ukraine (2009). The company was originally founded in 1938, and was a major electronics firm in the socialist period, employing 18,000 in the 1980s. Following the collapse of its CEE markets in 1989, the factory became moribund. It was privatized in 1991, bought by three managers (10%) and the Magyar Hitel Bank (75%), with 15% remaining with the State Property Agency; the three managers acquired full control in 1996. The purchasers included Gabor Szeles, an entrepreneur who operated an electronics repair firm Muszczerteknika in the 1980s, with direct experience of cooperating with western companies, including IBM. In the post socialist period the company acted as the organizing center of a network of Hungarian electronics companies (Radosevic and Yoruk, 2001). In 1998 it adopted a new strategy of providing a full service manufacturing facility, using its network of Hungarian associate companies. The company expanded rapidly from EUR 170m in 2004 to EUR 290m in 2007. The company proved agile in negotiating changes in the industry, moving to new sectors as markets in existing sectors deteriorated. In 2008 the company signed an agreement to manufacture batteries for Sanyo at Marcalli. With increasing production costs in Hungary, Videoton expanded production in Bulgaria and the Ukraine. With increasing turbulence in the market, the company was forced to undertake a range of smaller and more diverse contracts, reducing margins.

The electronics industry shared many trends with the motor vehicle industry. In both, international competitive pressures led to a focus both on speed of new product development and minimizing the costs of production. In both industries, the result was a focus by the major multinationals on core corporate capabilities and outsourcing other activities. Networks replaced both hierarchies and markets in both sectors, as the most efficient means of reconciling controlling costs with fast new product development, whilst maintaining management coherence. Networks provided greater security and fewer risks than exclusive reliance on markets, especially where firms shared a common interest in technological innovations, as in computer manufacture (Sturgeon, 1998). CEE businesses were required to fit in with this framework. The main assets of CEE for the US and Japanese multinationals that dominated the electronics industry were low production costs and proximity to the European market. However, these assets were less important to the electronics sector than to the car industry, since labor costs were a relatively low component of overall costs and the low unit costs of transportation reduced the value of proximity. Moreover, the importance of network links for accelerating new product development reinforced the advantages of agglomeration in specific regions in Japan and the US, rather than in CEE. Electronics companies were therefore slower to develop production sites in CEE than car manufacturers. Nevertheless, there were sectors of the industry for which the CEE offered advantages, based partly on the historic legacy of socialist companies. In lighting, the historic strength of Hungary's Tungsram led GE to purchase the company, which came to provide a focus for research and development in the lighting area, as light bulb manufacture became increasingly complex, although by 2010 it was facing intense competition for GE's R&D investment in lighting from China. Companies such as Philips invested in product development for the sector, alongside a diversity of production sites. The particular requirements of the highly regulated telecommunications industry led to investment in telecommunications, for example by Ericsson, Nokia and Siemens in Hungary, and by Siemens in Poland.

CEE electronics companies were mainly involved in fabrication, rather than research and development, and in relatively mature technologies. Radosevic (2002:18) concluded early in the 2000s that CEE countries were 'present in technically less demanding areas such as passive components,

audio equipment and technically less complicated computer parts, except hard discs'. The situation had changed slightly by 2010, for example with expansion and upgrading in telecommunications. Hungary was the most dynamic CEE country in the sector, and Hungarian companies were incorporated into global production networks. But their position was fragile, and dependent upon combining agility with labor cost advantages. As the labor cost advantage waned, and Romania and the Ukraine became more promising manufacturing sites, multinational investment moved elsewhere; the one-time largest US investment in the electronics industry, IBM's Szekesfehervar plant manufacturing hard disc drives, was closed in 2002, although IBM continued other activities. Indigenous CEE companies, such as Videoton, survived by moving agilely between sectors, and providing a wide range of services at reasonable cost.

The strategic considerations affecting the motor vehicle and electronics industries were not shared by other sectors, where trans-national strategies were more appropriate, such as pharmaceuticals. The implications of the global strategies of pharmaceutical companies differed from those of motor vehicle companies, permitting greater national variations. GlaxoSmithKline, for example, concentrated research in the US, Britain and Japan, with production facilities distributed globally. They did not establish a major research facility in CEE. However, early stage research in pharmaceuticals was often initiated by smaller start up companies, to be taken over by larger companies where the initial results were promising; the more expensive product development, testing, and approvals procedures were concentrated in major metropolitan markets, usually the US, by far the largest national market for ethical pharmaceuticals. Lower cost production facilities were established in the region, both for ethical drugs and for generic drugs. There was less need for the global coordination of the production process itself, provided local quality controls were effective, since production costs were a lower proportion of total costs, and governments were keen to secure local production centers.

The overall strategy of the corporation and the related technological requirements of the production system were the primary influences upon multinational capacity for incorporation into national business systems. The critical factor was the inter-relatedness between the subsidiary's production system and the production systems of other firms in the multinational, both vertically and horizontally. Several subsidiaries were responsible for supplying components and sub-assemblies for end user products completed elsewhere, as first tier suppliers to a final assembler in motor vehicles, as the Audi plant in Győr (Hungary) supplied engines for Audi cars assembled in Germany. Toyota style industrial engineering involved tightly coupled and controlled production systems, enabled by investment in IT, to ensure quality standards as well as to maintain continuity of production. When the subsidiary achieved global mandate status, the level of subsidiary autonomy was limited by global responsibilities. The degree of coupling depended upon the variability and specificity of product markets: enterprises supplying diverse products to specific national markets acquired greater autonomy than enterprises supplying standardized products to global markets. The development of global production systems, with limited subsidiary autonomy, was at its peak during the Fordist era of the 1970s, when economies of scale reduced production costs and provided competitive advantage, and was strongest in the motor industry, but the logic continued after the Fordist peak.

2.2. Multinational organizational structures

The major feature of organizational structure influencing subsidiary relations with national business systems was the degree of autonomy granted to the subsidiary by corporate headquarters. The higher the level of subsidiary autonomy, the greater was the potential for involvement with national business systems. The degree of autonomy differed according to a range of organizational features, operating within parameters set by corporate strategies, production systems and sector and product markets.

Three organizational features influenced the degree of subsidiary discretion. The first was the multinational's country of origin, with national differences in the extent to which corporate head offices

were willing to decentralize power and authority. The second was the ownership status of the national subsidiary within the multinational, whether the subsidiary was wholly owned, a minority holding or a joint venture. Enterprises operated as joint ventures were more heavily incorporated into national business systems than the other two ownership forms. The third feature was the mode of acquisition of the subsidiary, whether through privatization, post privatization acquisition, or green field investment.

Multinationals headquartered in different countries allowed different levels of autonomy to their subsidiaries (Harzing, 1999). At one extreme, Japanese owned multinationals allowed little autonomy, Japanese corporations believing strongly in the importance of retaining Japanese methods of working, especially in subsidiaries engaged in manufacturing and manufacturing related R&D. The reluctance to allow autonomy was due to both cultural and operational factors. Culturally, Japanese retained a high level of consciousness of their nationality, with a strong emphasis on group cohesion and loyalty (Dore, 1987; Kono and Clegg, 1998). Operationally, as Fruin comments regarding Toshiba, 'going overseas or internationalizing operations reduced flexibility because [...]the complexity and versatility of manufacturing systems as they exist in Japan cannot be easily transferred abroad. The nature of factory know-how is not contained in manuals but is found instead in practice and experience. This history is embodied in factory-specific, face-to-face relations, on-the-job training, and in people-based, site-specific knowledge. Complex and sticky knowledge, in turn, is rooted in the principle of organizational learning in which effective, usable learning concentrates and resides in specific work sites, functions and interactions. Such knowledge cannot be simply transferred elsewhere' (Fruin, 1997:162). Given such views, it is unsurprising that Toshiba was reluctant to establish production plants overseas, and that when Japanese plants were established overseas Japanese nationals retained senior management control. This reluctance was especially evident over transferring operations to countries with which Japan had little historical connection or cultural affinity, such as Hungary. The only Toshiba production facility in CEE produced TVs in Poland, a relatively mature technology. In motor vehicles, the earliest major Japanese investor in CEE was Suzuki, established in Esztergom as early as 1992, and ranked 9th out of 36 in level of investment in CEE between 1990 and 2000 (Radosevic and Rozeik, 2005: 26). Suzuki was an adventurous but relatively small manufacturer, specializing in small and light-weight vehicles; although it became the long term market leader in Hungary, as well as a major exporter, the first car regarded as suitable for marketing in Japan was produced only in 2008.

The major US multinationals were also strongly committed to maintaining central control, and requiring their subsidiaries to follow US practices, including human resources practices. German, Dutch and British multinationals granted greater autonomy to their subsidiaries (Harzing, 1999; Edwards and Rees, 2006: 114-7). German multinationals were the largest investors in CEE, both in manufacturing and in services. The cultural difference between German multinationals and regional companies was less than the cultural difference between Japanese and regional corporations, in view of the long historical links between Germany and Hungary. Cultural similarity and proximity eased control issues, permitting greater autonomy for German than for Japanese subsidiaries.

The second factor influencing the degree of subsidiary discretion was the ownership status of the subsidiary. Wholly or majority owned multinationals were more oriented towards the international corporate headquarters and sensitive to corporate expectations than companies in which multinationals were minority participants. In Majcen et al.'s study of foreign subsidiaries in five CEE countries, including Hungary, majority ownership was the major factor influencing the level of central control of subsidiary business functions (2006:23), although the measure of ownership used was crude. The most common ownership pattern was wholly owned subsidiary both in Majcen et al (2006:10) and in other studies. In Jindra's study of Global Integration and Local Capability, using 425 subsidiaries (Jindra, 2007:32, Table A 1) in five CEE countries, the majority of subsidiaries (56 per cent) were wholly owned, including 64 per cent in Hungary and 49 per cent in Poland. Mannix et al. (2004) hypothesized that the degree of central control increased with the level of ownership, a hypothesis confirmed, if only weakly, by their subsequent analysis; the small number of minority holdings rendered statistical

associations weak. The orientation towards the international centre was reflected in the composition of Boards of Management and Supervisory Boards; for example, the Hungarian company Magyar Telekom was majority controlled by Deutsche Telekom, with 59.2 per cent of voting shares; the Board of Directors (Management Board) was drawn primarily from the German corporate world, rather than Hungary, although the Supervisory Board was primarily Hungarian.

Multinationals had few incentives to maintain minority holdings in CEE companies, because of the fragile legal protection available to minority shareholders. In Jindra's survey of 425 CEE multinational subsidiaries, only 16 per cent of companies sampled in Hungary and 16 per cent in Poland had minority (10-50 per cent) foreign participation (Jindra, 2007). Mannix et al (2004:20) found that a similar small proportion, only 14.5 per cent of subsidiaries, had minority participation in their study of manufacturing subsidiaries in Estonia, Poland, Hungary, Slovakia and Slovenia. Minority shareholders faced the danger of exploitation by majority block holders, with limited legal protection (Pistor, 2000: 5, 10-12). The benefits of minority participation were the opportunities for organizational learning and the establishment of an informed bridgehead for subsequently securing control. For example, the Austrian oil company OMV used its 21 per cent holding in the Hungarian company MOL as a launch pad for securing control of the company in 2008; when the bid was unsuccessful the company sold its holding to the Russian oil company Surgutneftegas. The Russian company declared immediately that it would not use the holding as the basis for seeking control, but proved unable to exercise even its minority participation rights at subsequent AGMs (Martin, 2010: 159-60). The Russian shareholding was eventually bought by the Hungarian government in 2011, after extended negotiations. Minority participation by the multinational was associated with greater autonomy for the subsidiary, even after taking account of country of origin, industry and firm size (Mannix et al.,2004: 44).

Under joint venture arrangements, multinational management shared corporate control with local investors, reducing risks at the cost of sharing control. During the early stages of the transition period, joint ventures facilitated market access, provided a means for organizational learning, when detailed knowledge of CEE enterprises was limited, as well as containing risks and avoiding accusations of foreign exploitation – the acceptable face of foreign ownership. However, multinationals regarded joint ventures as a transitional organizational form, with the problems of shared control and organizational difficulties outweighing the benefits of reduced risks and organizational learning. Where joint ventures succeeded, there was a strong incentive for multinationals, as the financially more secure partners, to buy out junior partners, especially once the multinational had acquired local knowledge, and the local market had developed commercial support services initially provided by the local partner. Where joint ventures failed, but the multinational believed that the market had potential, there was also a strong incentive for the multinational to buy out the other partner. Joint ventures therefore often evolved into multinational controlled enterprises, with the multinational providing major financial resources, management skills, and technology, as well as international connections. In the motor industry, foreign ownership shares in joint ventures increased throughout the 1990s, with only FIAT and Daewoo retaining significant local investment, largely because of the financial difficulties of the foreign owners (Radosevic and Rozeik, 2005:34). For Hungary, joint ventures, often founded out of privatized state enterprises, came increasingly under multinational control (Stark and Vedres, 2006: 1380). The Budapest Stock Exchange itself progressed from being a joint venture to being majority owned by Austrians.

The third feature was the mode of acquisition of the subsidiary, whether during the privatization process, post privatization or by green-field development. The degree of autonomy available to the subsidiary may be expected to be greater where subsidiaries were acquired through privatization, possibly after a period of initial conflict, because of organizational history and culture. Subsidiaries acquired on privatization possessed their own initial organizational culture, embedded in managerial expectations and employee attitudes. Where corporate management controlled the privatization process, their influence on corporate culture was likely to survive changes in ownership; even where

the process of privatization was controlled by state authorities, as in Hungary by the Hungarian State Property Agency, existing management groups exercised major influence on the privatization process (Antal- Mokos, 1998). Pre-existing organizational cultures influenced the post socialist operations of the enterprise, even where new international owners wished to transform them, as Roney's (2000) anthropological study of a Polish locking mechanism company dramatically demonstrated. Direct acquisition by multinationals in the privatization process was more common in Hungary than elsewhere, due to the government's policy of privatization by sale, preferably to strategic investors. Multinationals had greater opportunities to undertake due diligence investigations on post privatization acquisitions than on privatization acquisitions, with more information on which to make judgments, especially through staged acquisitions, with initial involvement via minority participation. With green-field developments, the influence of multinational headquarters was greater and the degree of subsidiary autonomy less, institutionally and culturally. Green-field developments became increasingly common as the transformation progressed.

There were thus several factors which inclined multinationals to stand as 'cathedrals in the desert'. Multinational attention was focused on international strategy and its implementation, and the management of interdependencies within the corporation. Both cost leadership and differentiation required central coordination. Some multinationals followed multi-domestic internationalization strategies, some global internationalization strategies, and some trans-national strategies. There were major differences between sectors, with especially limited autonomy in motor vehicles and electronics. The degree of autonomy granted to subsidiaries influenced the relations between multinationals and national business systems. The degree of autonomy was influenced by the country of origin, the ownership structure, and the mode of acquisition, as well as the patterns of interdependence built into the production system, itself influenced by product markets and the sector's technology.

The overall strategic and organizational logic adopted by multinationals thus suggests a 'cathedrals in the desert' approach to engagement, with subsidiaries incorporated into internationally oriented structures and systems. Strategies, structures and modes of operation were centripetal. In this scenario, the influence of national governments was very limited, with little leverage over multinationals (Doz, 1986: 247). Yet this exaggerates the multinational's capacity for isolation from national environments. National governments determined initial access for acquiring ownership, through legislation and administrative procedures. Institutional arrangements, including the legal framework, education and training systems, skill levels of the labor force, and infrastructure provision directly affected operational and corporate performance. The predictability of government policies on taxation, and consistency in administrative application, were also important. Features of the national business culture, such as norms of commercial trust, as well as material inputs required from local supply chains, also affected subsidiary performance. Moreover, multinationals operating in regulated environments, such as telecommunications, or in strategically sensitive sectors, such as energy, including oil and gas, were necessarily involved at government levels with national business systems. It is therefore necessary to examine the relations between multinationals and national business systems from the national as well as the MNC perspective.

3. National business systems and multinationals

The national business system here refers to the state, enterprise owners, managers, employees and associated institutions, policies and practices. It is impossible to cover all elements in the space available here. Instead, the section is divided into three parts. The first part concerns the role of the state, insofar as it is related directly and indirectly to the interests of multinationals: legislation, state administration, taxation, institution building and infrastructural development. The second part examines the macro-level business system, especially the degree of business system integration, at the sector, enterprise and individual plant levels. The third part briefly discusses the cultural dimensions of national business

systems, and the relationship between national cultures and multinational organizational cultures. The individual nation state, its culture, institutions, structure and the expectations of its citizens provided the frame for the perspective of the national business system.

Liberalization was an integral part of the post socialist transformation. International financial institutions and the broader Washington consensus expected CEE countries to open their economies to foreign investment and to foreign ownership, as well as to remove barriers to the import of goods and services. The Hungarian government committed itself to openness, as a signal of its incorporation into the international economic order as a 'normal' country, as well as a means of building an economy capable of supporting Western standards of living. Hungary's signature of a Europe Agreement in 1991 with the EU institutionalized the acceptance of international norms of marketization, alongside political democracy. The criteria for EU membership subsequently enshrined in the *acquis communautaire* included the free movement of capital as well as goods and persons, and the creation of a functioning market economy capable of withstanding international competition. Hungary, as the other Visegrad states, signed IMF Article VIII, requiring the liberalization of financial capital flows (Bandelj, 2008:80). Governments created specialized agencies to encourage and facilitate foreign direct investment.

3.1. The state and multinationals

The state directly determined by legislation the conditions under which multinationals could acquire economic assets. In Hungary, as in Poland, foreign participation in joint ventures was permitted from the 1980s, and foreign ownership from January 1989. The Hungarian 1988 Act on Foreign Investments allowed foreign investors to set up businesses without special permission, except for banking and financial services, and to repatriate their profits. Joint ventures with 30 per cent or more foreign participation were entitled to taxation privileges (Antal-Mokos, 1998: 45). The 1988 Polish Joint Ventures Act granted special taxation privileges to foreign companies. The 1991 Law on Foreign Investment, which replaced the 1988 Act, permitted foreign owned businesses to be established without special permission, except in a limited number of areas. To avoid evasion of the restrictions through the creation of Polish front companies, domestic companies under foreign managerial or operational control were required to seek permits (Frydman et al., 1993: 166-8). Foreign ownership was permitted in Czechoslovakia from 1991 and in Romania from the same year. Hungary permitted multinationals to acquire corporate property, including physical assets (buildings, plant, and machinery), from early in the transition process, through participation in privatizations, by direct purchase or by green field development. But there were restrictions on the ownership of land, especially agricultural land, which lasted until after EU accession.

Despite the universal international pressure for opening access to international investment, privatization legislation differed between countries, being more favorable to foreign investors in Hungary than elsewhere. Hungary provided greater clarity in ownership rights and greater security of tenure, and allowed less scope for special privileges for managers, employees and, via voucher schemes, for citizens (for fuller discussion, see Hanley et al., 2002). Polish privatization legislation provided for allocation of shares to employees and managers, at subsidized prices, and vouchers to citizens, as well as direct sale. The Czech privatization process through vouchers excluded participation by non-citizens, directly or indirectly. Multinationals were not well placed for acquiring ownership of assets in the Czech Republic until the late 1990s, through purchase from investment trusts in a second privatization cycle. Even in Hungary, the process of negotiating acquisitions was complex, and in the 1992-4 period the State Property Agency's enthusiasm for foreign sales waned due to political pressure on the Antall government.

The state continued to influence the overall corporate structure of the economy. Under socialism, the state and collective ownership arrangements bound governments and enterprises together. Even after the state planning system of the classic Stalinist period had weakened, with the New Economic Mechanism in Hungary, institutional and financial ties bound governments and enterprises together

– not least through financial subsidies and soft budget constraints (Bartlett, 1998: ch.1). Long term multinational participation in national business systems required the dissolution of this intimate connection, and the redefinition of the role of the state from that of active participant and particularistic decision maker to that of rule creator and enforcer of universal principles. The dissolution of the ties was a staged process, following different timetables in different countries. The first stage involved the transfer of decision making responsibilities from state bureaucracies to semi-independent industrial associations or to enterprises, a process that began with different versions of reform socialism and continued during the disintegration of socialist governments in 1989. The second stage involved the ‘corporatization’ of enterprises, changes in their ownership arrangements, involving the state in transferring operational autonomy to the enterprise, within the framework of continuing state ownership, with an arms length relationship between the state and the enterprise. The third stage involved the transfer of the majority of the state’s ownership rights to non-governmental owners, in varying proportions: to other state organizations such as municipal authorities, and to managers, employees, citizens as voucher holders, investment trust funds, banks, private nationals and foreign investors. The state retained minority holdings. The final stage involved the full transfer of ownership rights (control, usufruct and transfer) from the state to private ownership. This process of ownership change began during the socialist period in Hungary, as in Poland, and continued in the post socialist period. By 2010 the process had been largely completed; however, State Treasuries continued to hold shares in ‘privately owned’ enterprises.

The second aspect of state relations with multinationals was through government administrative procedures. CEE remained a region of stamped papers, with permissions required for numerous business activities, ranging from property development to expatriate residence. According to the World Bank rankings, in 2011 Hungary ranked 41st in all economies in ease of doing business (World Bank Group, 2011). Opening a business was easy, achievable in four days, ranking Hungary 35th. However, there were major problems in investor protection (rank 120), paying taxes (rank 109) and trading across borders (rank 72). The level of arbitrary government action differed between countries, with Hungary receiving much less criticism from the European Commission for arbitrary decision making than, for example, Romania. Corruption was the most arbitrary form of state administrative action, the need to provide private financial incentives to secure state action. Perceptions of corruption were widespread, and CEE states were amongst the most corrupt in Europe. Based on the BEEPS 1999 survey, Steves and Rouso (2003: 14) showed that Hungary scored 1.5 out of 6 on a scale of ‘bribe tax’, compared with 2.5 for the Czech Republic and 1 for Poland; Hungary had the lowest score on the State Capture Index, measuring firms’ influence over the state. In 2008, Hungary ranked 47th in Transparency International’s index of corruption, more corrupt than Poland but less corrupt than the Czech Republic and Romania. Public procurement was a particular area of concern. Press reports of corruption in public transport tenders, in property sales and approvals for development, in public sector appointments, were commonplace. In Poland, Johnson et al. (1999) found that 20.1 per cent of managers reported making extra-legal payments for government services, 19.3 per cent extra payments for licenses, although only 0.4 per cent reported making unofficial payments for on-going registration, 2.8 per cent for fire/sanitary inspection and 0.8 per cent for tax inspection. Popular perceptions of corruption in Hungary, as in Poland, were more extensive than these figures suggest. Corruption was thus a minority problem, more severe in some countries than in others, if less severe in Central and Eastern Europe than in Russia and the CIS. More generally, the rigidity and complexity of bureaucratic procedures and the frequency of organizational and administrative changes, posed difficulties for both local and multinational enterprises; but the difficulties were greater for multinationals unfamiliar with the systems. Getting the document to the top of the pile was as great a problem as the partiality of the decision.

The third issue was taxation. Taxation systems were opaque, arbitrary and subject to frequent changes. Taxation issues proved a major problem for multinationals operating in Russia, but proved considerably less so for multinationals operating in Central and Eastern Europe. Rates of corporate

taxation were not high, by West European standards, with 34 per cent the highest rate of corporation tax and 18 per cent in Slovakia, although employee on-costs were high. Moreover, multinationals were able to manage their tax obligations through intra-company financial transfers. Corporate taxes were substantially lower than personal taxes, encouraging citizens to establish micro-companies as a means of reducing tax liabilities. The personal tax liabilities of expatriate staff were often subject to the country of employment contract, not the country of multinational operations.

The fourth aspect of the business system was the overall governmental institutional structure. The rule of law was fundamental to the operation of the business system. This had two dimensions: the provisions of the law, and the institutional structures that supported legal processes. Law was especially important during economic transformation because it created rights and responsibilities where established definitions and understandings were absent. Law provided decision rules, and thus a basis for management decision-making. It also played a wider educational role, indicating the behaviors required for market competition. The interaction between law and corporate structures went beyond formal provisions. For example, the protection of the legal rights and responsibilities of shareholders, especially minority shareholders, proved problematic and directly influenced the preferences of potential investors: weak protection for minority shareholders led to insistence on controlling shareholders to prevent exploitation (Pistor, 2000). Comparative legal analysis suggested that the Anglo-Saxon law family provided the strongest protection for investor interests (La Porta et al., 1998; La Porta et al., 1999). However, Hungary belonged to the German legal family, as Poland and the Czech Republic; no CEE country belonged to the Anglo Saxon common law family. However, the legislation regarding the basic features of corporate structure and commerce was similar to international provisions, because of the strong influence of international technical assistance and the requirements for EU accession (Pistor, 2000). Hungarian corporate legislation showed greater sympathy for stakeholder conceptions of the firm, with two-tier corporate governance structures, including employee representation on supervisory boards, than for the investor dominated conceptions of the firm of liberal market capitalism – although the 2006 Companies Act provided less support for employee representation than the preceding 1997 legislation.

A second aspect of state institutional arrangements was the educational system. The availability of an educated labor force was a major attraction to multinationals, and depended upon state policies and levels of investment. Primary and secondary education was well developed, and levels of literacy and numeracy were high, as indicated in the UN Human Development Index. During the socialist period, the responsibility for skills training was shared between enterprises and local training institutions. However, such arrangements collapsed during the post socialist period; the balance between public and private responsibility for developing skills changed, with a decline in state provision and increased responsibility placed on the private individual as well as the enterprise. Because of financial difficulties, the state was unable to maintain previous levels of expenditure in the early years after 1989. However, by the 2000s levels of expenditure on education as a proportion of GDP matched west European standards; in 2008 Hungary spent 5.2 per cent of GDP on education, compared with an average of 5.0 per cent for the EU 27 (Eurostat, 2010). The proportion of the 15-24 age group in education was 64.5 per cent in Hungary, compared with 59.7 per cent for the EU 27. The high levels of investment in education and technical training during the socialist period provided a high level of competence amongst the first generation of new post socialist employees. However, this cultural capital was gradually depleted, and multinationals themselves were required increasingly to assume responsibility for maintaining and enhancing skill levels. Tertiary education remained largely separate from multinational concerns, except for specialized professional and technical areas such as medicine. Management students usually paid their own fees to undertake MBA programs, although the EBRD provided limited financial assistance through funding loans.

Tensions between multinationals and governments were brought into sharp focus by the experience of the Orban government in Hungary in 2010. To deal with the effects of the financial crisis and recession, the Orban government imposed crisis levies on banks and major corporations in the energy,

telecommunications and supermarket sectors, the majority of whom were multinationals, as well as introducing major changes to pension arrangements. The measures were popular with the electorate, since they appeared to provide a means for controlling public sector deficits whilst avoiding tax rises. But the measures were highly unpopular with multinationals and incurred strong international criticism, with complaints by multinational corporations that the measures infringed basic EU rules, and threats of potential reductions in international investment in Hungary: the stand-off is currently unresolved (January 2011).

3.2. National business systems

National business systems comprised the formal institutions and structures, the patterns of behavior and the norms and values institutionalized in capitalist economic systems. Business systems are conceptualized here as the distribution of economic actors in a four dimensional space, by the relationships amongst the dimensions that create meaningful segments, and by relations between the segments. The following four elements define the segments: (1) property ownership; (2) access to capital; (3) relation to local, national and international production systems and product markets; and (4) relations between the state and the economy. To simplify, the categories of ownership are private, collective or state. The modes of capital accumulation are individual/market, bank, or state budget. Relations with the market are open market, networked, or chartered monopoly. The state may be clearly differentiated from the economy or may be closely linked. Schematically, national business systems may be characterized by: (1) the greater or lesser private ownership of property, including productive assets; (2) greater or lesser access to capital, and via different channels; (3) greater or lesser integration into local, national and international production systems and product markets; and (4) greater or lesser differentiation between state and economy. Three integrated business systems are suggested. In Model 1 (liberal market capitalism), the business system is based upon the private ownership of productive assets, open access to capital resources via market relations (credit, borrowing, issuance of equity) and competitive relations in product markets, whether intermediary or final consumer markets. There is a high degree of differentiation between the state and the economy. In Model 2 (coordinated market capitalism), there is collective property ownership and control, access to finance via banks and other forms of relational financing and market linkages through networks. The state encourages the development of corporatist relations between state and economic actors. In the third model, Model 3 (socialism), the state is property owner, with capital resources raised through taxation and other forms of public revenue, and with market access based on chartered monopoly arrangements. The state dominates the economy. However, not all business systems are so neatly arranged; business systems may be ‘mixed’, with the four dimensions less coherently tied with each other and with different segments operating on different principles.

In contrast to the hypothesized models, post socialist national business systems were characterized by low levels of integration between segments of the economy defined in terms of the four dimensions, with different segments of the system operating according to different business logics. The four segments that were created in Hungary were the state segment, the privatized segment, the *de novo* segment and the international segment. Multinationals therefore had to orient themselves to several segments, including other members of their own international segment.

3.2.1. Hungary’s segmented business system

Hungary represented the most liberal market form of post socialist capitalism in CEE. Hungary may thus be expected to form an integrated, Model One, business system, based on the principles of liberal market capitalism. For many Hungarians, the accession to the EU in 2004 represented the end of

the post socialist transition and the emergence of Hungary as a fully fledged capitalist economy; 'the accession of ten East European countries to the European Union in 2004 decisively closed a chapter in history, opened in 1989' (Vedres, 2004:1). However, the form of business system established in post socialist Hungary was less straightforward than this judgment suggests. In the early 1990s, the political, economic and social transformation following the collapse of the socialist regime in Hungary created four politico-economic segments, characterized by different combinations of the four dimensions of property ownership, access to capital, production and market relationships and the role of the state.

The first was the state segment. Previously dominant, at least in form, the state divested activities, decentralized and changed shape, to reflect its new role of democratized legislator, administrator, service provider, limited strategic investor and residual legatee for ailing enterprises. The state provided the legislative, administrative and judicial foundation for economic activities, as well as direct management of the limited range of economic resources that remained in state ownership. Alongside its legislative and administrative role, the state retained ownership of some productive assets, with increased bureaucratic autonomy following the elimination of the Communist Party. The segment continued to rely primarily on the state budget for finance. It had limited links with international production systems, but the state retained importance for overall market relations via its regulatory role, for example in telecommunications. The second segment comprised previously state owned enterprises whose assets were 'recombined' through privatization (Stark, 1996). The segment was characterized by complex, fluid property arrangements, involving combinations of different forms of public and private ownership. The segment had access to a wide range of sources of finance, domestic and international. The segment was oriented to both domestic and international production systems. The institutional fluidity of the privatized sector meant that the segment remained linked to the state and politicized, since decisions on property allocation and institutional arrangements continued to be political as well as economic (Antal-Mokos, 1998). The third segment comprised *de novo* firms, newly established small and medium sized private firms. Ownership was private, usually personal rather than institutional, access to external finance was limited and the business orientation was primarily to domestic markets. The fourth segment comprised the multinationals themselves, the international business segment. Property ownership was private, usually institutional or corporate, with ready access to varied sources of finance, domestic and foreign, and primarily oriented to international markets.

In the early 1990s, the four segments identified occupied different locations in the four dimensional space. State firms were in national or local government ownership, with financial resources acquired from the state budget, and operating under chartered monopoly, although threatened by multinational competition in some sectors. The second segment, privatized firms, was in state/collective ownership, financed from the state budget or from relational bank financing, and networked relations with national and international production systems. The third segment, *de novo* firms, was under private ownership, with capital internally generated or acquired from relations and friends and open market relations with primarily local and national product markets. The fourth segment, multinational corporations (operating as joint ventures or as wholly owned subsidiaries), were privately owned, financed through internal transfer, and were related to product markets via intra-firm linkages, leading to the open market. The following paragraphs outline the international segment in terms of the four dimensions.

Ownership By 2001, the majority of the top 200 Hungarian firms were either foreign owned and operated independently (29 per cent) or with substantial foreign participation and operating as members of an ownership network including indigenous firms (26 per cent) (Stark and Vedres, 2005:13). By 2002 80 per cent of investment in the Hungarian economy was contributed by foreign companies, and 82 per cent of exports. The major owners were German, with Deutsche Telecom as the single largest foreign investor, but with RWE Energie/Energie Baden Württemberg in electricity, Bayernwerk AG also in electricity and Volkswagen/Audi in car manufacturing. US companies were also major owners, with General Electric in lighting, General Motors in car manufacturing and US West in cellular phones.

A small number of regional multinationals firms were jointly owned by Hungarian and international investors, including MOL in oil and gas and OTP in banking and financial services.

Finance The major source of finance for the international segment was by intra company transfer from foreign owners. Foreign owned firms also had greater access to external finance, including easier access to credit, both domestically and internationally. Annual inward investment into Hungary between 1996 and 2001 stood at \$2275m in 1996, dropping to \$1649m in 2000, before rising to \$2443m in 2001. By 2007 Hungary's FDI stock had reached 70.5 per cent of GDP (UNCTAD, 2008: Annex B, Table B3). In the early years of the transition the FDI was in the form of equity investment. However, from 1996 investment was increasingly in the form of intra-company loans. Such loans increased from 21.41 per cent of FDI flow in 1996 to 55.89 per cent of FDI flow in 2001 (National Bank of Hungary [2003] Table 3a). Intra-company loans also represented an increasing share of the stock of foreign investment, increasing from 11.09 per cent in 1996 to 19.17 per cent in 2001. In addition, an increasing share of investment was financed by reinvested earnings, with 9.48 per cent of the FDI flow in 2008 arising from reinvested earnings (MNB, 2010, Statistics, FDI). Increasing foreign capital investment accentuated the differential between foreign and indigenous firms. Hence, foreign owned corporations increased their share of the ownership of gross assets in manufacturing from 29.2 per cent in 1992 to 77.2 per cent in 1999, and share of investment from 42.5 per cent in 1992 to 84.7 per cent in 1999 (Hamar, 2002:34).

Market relations Multinationals were Hungary's means of integration into global production systems. Integrated into international production systems, with higher levels of investment, higher levels of profits, and greater access to capital the foreign owned segment of Hungarian enterprise provided the basis for the possible development of a dual economy in Hungary. The major contributors to Hungarian exports – and imports – were wholly or partially foreign owned corporations (Hamar, 2002). In 1999, 17.7 per cent of manufacturing companies were foreign owned, but they contributed 88.7 per cent of net income from manufacturing exports. Exports represented 59.5 per cent of the output of foreign owned firms. In contrast, the remaining 82.3 per cent of indigenously owned manufacturing firms exported only 11.3 per cent of their output, representing 20.7 per cent of exports (ibid.:34-5). The composition of Hungarian international exports changed from products in which the country's firms had specific historic comparative advantages (including agricultural products) to higher value added products characteristic of industrialized economies, most importantly office machinery, engineering products and motor vehicles. The international segment was also responsible for a high level of imports, amounting to HUF 6928.1 billions in 2000 (Hungarian CSO, 2003).

There was a sharp contrast between foreign owned and indigenous owned manufacturing firms. Foreign owned firms were heavily oriented towards exports, whilst indigenous firms were oriented to the domestic market. Hence, foreign owned firms contributed 58.3 per cent of the net income of domestic sales, compared with 88.7 per cent of the manufacturing sector's net income on export sales. The contrast between export oriented foreign owned firms and domestically oriented indigenous firms is even stronger when the service sector is taken into account, since the service sector was predominantly locally owned and oriented to local products and services (Major, 2003), with the important exception of financial services. The international segment's market relations contrasted sharply with the market linkages of *de novo* firms.

3.3. Economic culture

Economic culture refers broadly to the norms and values governing economic activity, both inside the corporation and in external market relations. It includes notions of fairness, honesty, transparency, as well as conceptions of exploitation. Economic culture refers both to national and to organizational cultures. Market institutions and market relations are strengthened by consensus on basic concepts

of economic culture, or at least by explicit recognition of differences. The economic cultures of western multinationals differ, reflecting their national origins, with major differences between, for example, British, German and French multinationals (Lane, 1989). Nevertheless, they pre-suppose a limited range of norms and values – internally, acceptance of corporate authority relations, externally, transparency and hostility to corruption. Such operating assumptions coexist with national cultural differences, such as those identified by Hofstede (1994). Arrangements for corporate governance are based on such norms, as the necessary foundation for economic exchange. The arrangements may be enshrined in contract, backed by legal sanctions, or incorporated in understandings, enforced by group sanctions, as norms of reciprocity in Chinese *guanxi* relationships. Further values, for example the positive evaluation of risk taking and innovation may be fostered in entrepreneurial firms, as in some national cultures. Internal norms and values are explicitly developed in company training programs – ‘the GE way’, ‘the IBM way’, ‘the Sony way’. Of course, norms and values do not always govern actions, but they are recognized if neglected; misbehavior is only possible with norms of behavior (Ackroyd and Thompson, 1999).

Historically, the economic cultures of CEE were different. Nineteenth century economies were dominated by state bureaucracies and landed aristocracies, with capitalist enterprises developed by non-indigenous populations, mainly Jewish or German (Berend, 1998). The largest group of indigenous workers were peasants, combining subsistence small holdings with external agricultural employment. Post World War Two industrialization in Hungary, as in Poland and Romania, resulted in rural migration to urban areas, with urban dwellers continuing to maintain links with their villages of origin. Norms and values centered on family and kinship, with distrust of formal institutions (Rose, 2009). Socialist ideology imposed the very different norms and values of Party loyalty and group commitment on top of family centered norms and values, rather than transforming them: Lampland’s (1995) study of the Hungarian village indicates the interplay between economic changes and social value under socialism. Familism and individualism were combined with formalized conformity with group values, as in ‘painting socialism’ (Burawoy and Lukacs, 1994:20-21). Beyond the family, within society, the Party and working class movement, within the enterprise, the work group, were the foci of commitment. The development of capitalist economic relations destroyed the formal collectivism, fostering competitive individualism. Such competitive individualism complemented the mistrust of formal institutions, especially political parties, revealed in successive Eurostat and New Europe Barometer surveys (e.g., Rose, 2009: 154), and the widespread perceptions of corruption revealed in Transparency International surveys. Within the enterprise, the culture of competitive individualism encouraged low trust relationships between management and employees, with many managers perceiving employees as opportunistic and lacking organizational commitment. Overall, the economic culture – at best - encouraged entrepreneurship, risk taking and sophisticated market relationships, but discouraged long term institution building and productive collaborative relationships.

In view of the contrast between the formal requirements of multinational economic culture and the national culture, multinationals sought to build their own organizational cultures. This involved selective recruitment, including a preference for ‘international Hungarians’, nationals with international experience, especially where technological change required adaptability, initiative and cross functional flexibility. Developing organizational culture also involved establishing formal human resource development programs, to develop cultural skills as well as functional skills, especially at managerial level. Hence, GE Lighting implemented its Seven Sigma program throughout Hungary, as in other parts of the GE Corporation. Multinationals’ focus on fostering their own corporate working cultures reinforced the cultural distance between multinationals and locally owned enterprises. This distance was further sustained by the low turnover in multinational employees, with higher earnings underpinning organizational commitment.

4. Conclusion: multinational corporations and national business systems

This paper has examined the relations between multinationals and national business systems, analyzing Hungary in a comparative context. In Hungary, multinationals have contributed to international trade, to capital investment, to technological innovation, to the import of new management techniques, to broadening international awareness, as well as being major employers. In these respects the interests of multinationals and national governments coincided. However, strategic decisions relating to the activities of multinationals were taken outside the region, at corporate headquarters, rather than within the region, and regional priorities remained subordinate to corporate priorities when conflicts between the two arose, for example over plant relocations. The orientation of multinationals differed from that of other participants in the national business system, especially locally owned enterprises – their orientation is to their corporate headquarters, not to the national interests or institutions of the countries in which they are operating. The corporate headquarters are responsive to the interests of corporate shareholders, as owners, as well as to the corporation's institutional interests, including the institutional interests of higher management. Multinationals follow strategies of cost leadership, differentiation, or focus, in relation to the dynamics of the product markets and production systems, technologies and institutions. The strategies adopted have different implications for organizational structures, with different patterns of control, coordination, and configuration, with different implications for relations with national business systems. Reflecting these considerations, multinational strategies and structures differ between sectors, with greater centralization in some sectors, such as motor vehicles and electronics, especially where corporations are following cost leadership strategies in serving mass markets, than in others, such as heavy engineering. Such differences have direct implications for the degree of integration between multinationals and the national business system in which they operate. The greater the orientation to global strategies, the lower the level of discretion accorded to subsidiaries, the lower the incentive for subsidiaries to participate fully in national business system activity.

Multinational engagement was also influenced by features of the CEE environment. Historically, CEE has been peripheral to a West European core. In the Nineteenth Century the 'sleeping east' provided primarily agricultural products for the industrializing north west of Europe. Since 1989, the region has been incorporated into the international economy at the level of international trade and at the level of international production systems. The EU, especially Germany, has become the most important destination for exports and source of imports, as well as source of capital investment - although the relation between the EU and CEE is asymmetric, with EU exports to CEE representing approximately 2.5 per cent of EU exports, and CEE exports to the EU representing approximately 60 per cent of CEE exports. Moreover, the Hungarian national business system differed in three respects from West European business systems, which affected the capabilities of multinationals to integrate into national systems. Firstly, the Hungarian business system showed a higher level of segmentation than, for example, the British or German systems, with higher levels of differentiation between the segments; the number of segments made engagement more difficult, and less rewarding. Secondly, the influence of shareholders was lower, and the influence of corporate management was greater, resulting in differences in the realities of corporate governance practice; national managers had more room for maneuver and had fewer masters than their multinational counter-parts. Thirdly, the state continued to have a broader influence upon the business system than in Western Europe, continuing to politicize economic life.

Multinationals and national business systems were bound together by interests and institutions, at three levels. The first level was the national, governmental, level, and concerned the extent to which multinationals benefited from government policies and activities, both from general and from selective policies. The second level was the collective, group level, and concerned the relations between multinationals and collective business and employer organizations: to what extent did multinationals share collective interests and institutions with other enterprises? The third level concerned the relations

between multinationals and other enterprises, whether as customers or as suppliers. At each level, multinationals and governments, groups and firms shared reciprocal but not identical interests, nor identical institutional engagements.

The first level concerned multinationals and the state. Multinationals and the state were interdependent. Multinationals required the state to provide a predictable institutional framework within which they could operate, to provide macro-economic stability (or at least to control macro economic risk) and to provide legitimacy for their activities. The liberalization and expansion of international trade and government policies of deregulation in the late Twentieth Century paradoxically increased rather than reduced governmental and inter-governmental regulation, with privatizations leading to the need for external regulatory controls, including controls to prevent abuse of monopoly (Vogel, 1996). In addition, governments were major customers for multinationals' products, with public procurement practices a major multinational concern, for example over investment in transport infrastructure. Governments depended upon multinationals for financial resources - taxes, customs and excise duties, payment of special levies: for example, the 2010 crisis tax on supermarket chains raised HUF 10.7bn from TESCO alone. Governments also depended upon multinationals for capital investment in new technologies, for access to new social technologies and for access to international markets. FDI was the mechanism for upgrading domestic industry and accelerating economic growth.

In the specific context of post socialist capitalisms, the balance of dependences between multinationals and national governments and business systems differed from Western Europe, with multinationals less dependent and national governments more dependent. In terms of the first level of internationalization, the logic of exchange, the market opportunities provided by CEE were attractive to multinationals, but the attractions were not overwhelming. Private incomes in the region were low, and demographic factors were less favorable than in India and China, with much larger, and much younger, rapidly growing populations. Poland, with almost four times the population of Hungary, was the most important market for multinationals to access. Once market access had been granted, and the liberalization of trade in goods and services institutionalized in commitments to international financial institutions and the EU, CEE became subject to the competitive norms of international trade, for both exports and imports. In terms of the logic of production, multinationals had multiple potential sites for investment in production facilities, with investment in China, India and Russia offering greater access to natural resources and investment facilities, as well as larger markets. The availability of well-educated, skilled workers, with manufacturing experience, as well as access and proximity to EU markets, provided some limited compensation for these disadvantages.

For CEE governments, with decayed industrial and social infrastructures, capital shortage, ageing and in some cases declining populations, limited employment opportunities, and expanding economic aspirations amongst citizens, securing multinational investment was a high priority. This was reflected in investment incentives, in Hungary as elsewhere in the region (Meyer and Jensen, 2005: 135-43). At the same time, electorates were sensitive to potential betrayal of national interests. CEE countries shared features with other peripheral dependent economies, if with significantly greater political leverage, and higher citizens' expectations.

The second level concerned relations between multinationals and collective organizations within the national business system, the extent to which multinationals shared interests with other enterprises and participated in joint institutions. Collective interest representative organizations had an interest in securing multinational involvement in support for their representations, provided that the support was not at the expense of the interests of national enterprises. However, multinationals shared common interests with other multinationals rather than with national enterprises, using more capital intensive production systems, serving international rather than local product markets, and following different labor relations policies. This was reflected in multinationals establishing their own collective organization in Hungary, the Association of Multinational Companies, and adopting *ad hoc* pressure tactics when facing unfavorable government actions, as in 2010. When the Orban government adopted

policies perceived as hostile by major multinationals in 2010, multinationals responded with an *ad hoc* grouping and pressure on the European Union, rather than proceeding through established Hungarian institutions. However, common interests amongst multinationals were limited by market competition. The interests shared between multinationals and national enterprises were few. Moreover, there were risks both for multinationals and collective employers' organizations if multinationals played a prominent role in government lobbying activities, leading to accusations of surrendering national interests to foreigners. One area of potential joint participation concerned the management of labor, through the National Interest Representation Council. Employers' representatives, trade unions and government representatives participated in tripartite partnership institutions, initially established in the early 1990s and given reinforced status by the EU, through its commitment to tripartite – government, employers and trade unions – partnership institutions. The tripartite institutions were a means of building national consensus on economic and social issues, with labor accepting restrictions in exchange for consultation on political, economic and social issues. However, multinationals played little part in such institutions, managing labor within their own corporate systems, although in a small number of cases national unions were involved at firm level.

The third level concerned relations between multinationals and individual firms. In terms of the logic of exchange, multinationals were both suppliers to and customers for domestically owned enterprises, with their role as customers especially important, as a means of strengthening providers' quality standards. The majority of multinational sales were international. For example, in Majcen et al.'s study (2006:13-14), overall exports accounted for 51.8 per cent of sales. However, there were major differences between countries, with Poland, the largest economy, having by far the highest proportion of multinational domestic sales: 62.6 per cent domestic buyers, 20.8 per cent foreign parent company, 12.0 per cent other foreign customers, and 4.5 per cent other domestic subsidiaries of foreign parents. Sales of subsidiaries in Hungary were split: 43.3 per cent to other domestic buyers, 27.7 per cent to foreign parent, 24.4 per cent to other foreign customers, and 3.5 per cent to other domestic subsidiaries of foreign parents. Domestic firms were naturally apprehensive about multinationals as threatening competitors in domestic markets.

More important for developing relations with domestic business was the level of inputs purchased from domestic suppliers. Multinationals had an interest in ensuring accessible, low cost inputs. Provided that quality standards were met, prices were competitive, and deliveries were reliable, there were major advantages in local rather than more distant sourcing. Multinationals were sophisticated customers, and as such demanded high levels of performance from suppliers, since the inputs were to be incorporated into products badged with the multinationals' brand. Purchasing from domestic suppliers was a visible indication of multinational confidence in the quality of domestic products. In his study of the international competitive advantage of nations, Porter stressed the importance of sophisticated customers as a major source of product quality improvement, and as such a source of national competitive advantage (Porter, 1990). In the Majcen study, multinationals in Hungary purchased more from suppliers than they sold to domestic customers, the split in purchases being 45.29 per cent from other domestic suppliers, 32.03 per cent from other foreign suppliers, 17.88 per cent from foreign owners, and 1.18 per cent from other domestic subsidiaries of foreign owners. For Poland, the proportions were 40.47 per cent from other domestic suppliers, 17.83 per cent from other foreign suppliers, 33.98 per cent from foreign owners, and 6.66 per cent from other domestic subsidiaries of foreign owners.

Multinationals' purchasing practices provided a channel for transferring technology and management skills to domestic owned corporations. Links between multinationals and suppliers provided a channel for spill over effects, with multinationals providing expertise in quality controls and other mean for enhancing the production capabilities of domestic corporations. The likelihood of such spill over effects depended on both the incentives for the multinational and the absorptive capabilities of domestic firms. Incentives for multinationals were high when the components from

suppliers formed a major part of the multinational subsidiaries' products, whether destined for onward processing within the multinational or as products for final consumers. For example, the elaborate quality control procedures established by the Japanese car assembler Suzuki helped to drive up the quality standards of the Hungarian car components firm RABA, to the benefit of both Suzuki and RABA, whose other customers, which included the Hungarian military, benefited from the upgrading. The multinational preference for local sourcing was especially strong when multinationals required high bulk and low value supplies. The ability of domestic firms to learn from multinationals depended upon their own capacities, linked in turn to their own level of technological development; too low a level of technological development made absorption impossible, too advanced a level of technological development made the learning counter-productive.

The transfer of technological capabilities may be horizontal, from multinationals to domestic firms operating in the same sector, as well as vertical, through establishing quality standards and providing support for suppliers. However, the potential for horizontal spill over was limited. There were disincentives for multinationals to facilitate spill over for firms operating in their own markets. Multinationals had an interest in restricting rather than enhancing the performance of other firms in the same sector, which might build up potential competitors. Moreover, multinationals were naturally reluctant to contribute to the technological upgrading of firms which might plausibly become competitors. At the same time, domestic firms may recruit employees with prior experience of working in multinationals, and have enhanced possibilities for reverse engineering multinational products. Overall, econometric research suggests that horizontal spill over was limited. Multinational involvement had the potential to enhance the performance of domestically owned firms, both as sophisticated customers and through direct collaboration. However, the impact of multinationals upon national economic performance was less through the impact on the productivity of domestically owned corporations than through the direct impact of the higher productivity of the foreign owned subsidiaries themselves.

Multinationals played a major role in integrating national business systems into the international economy through the logic of exchange, with their contribution to the expansion of both imports and exports. But the major role of multinationals in integrating national economies into the international economy was through the logic of production, with multinationals incorporating CEE enterprises into global production systems, both directly through the acquisition of enterprises and transforming them into multinational subsidiaries, and indirectly, as customers, providing a channel for domestic firms into international markets. Multinationals were agents of internationalization, introducing new material and social technologies into national systems, and providing a conduit for national links to the international economy. However, this integration did not signify globalization, i.e. the development of corporate strategies independently of the national origin, the national cultures, and the national interests of multinational owners. Multinationals did not relocate their international headquarters, or, except in rare cases, their R&D facilities to CEE. Multinational subsidiaries in CEE were subordinated to central corporate control, of their strategic development and their production capacity. Regardless of the specific strategy adopted, and corporate structures established, multinationals operated on a centripetal basis, although the mechanisms whereby corporate headquarters exercised central control differed.

As a result of the post socialist transformation, CEE business systems comprised diverse segments, with different forms of ownership, sources of capital, links to international production systems and markets and relations with the state. Multinationals became a further, international segment of national business systems. The growth of multinationals accentuated the differentiation within the national business system that already existed. But the internationalization did not transform national business systems either into models of liberal market capitalisms or coordinated market capitalisms. Instead, internationalization reinforced the divergent tendencies within national business systems, with different segments of the system sharing divergent interests.

Multinationals have transformed the Hungarian economy, and its relations with the international economy. Hungarian enterprises, largely but not exclusively through acquisition by foreign owners,

have been integrated into the international economy through the logic of exchange, and through the logic of production. This has had strongly positive consequences for the Hungarian economy, with Hungarian growth rates exceeding those of West European economies; in 2010 Hungary achieved a record surplus on its external physical trade balance, largely resulting from the export performance of multinationals. Global recession increased pressure on multinational firms to priorities reducing production costs, favoring countries, such as Hungary, with relatively low labor costs, technologically competent labor, ease of access to west European markets, and adequate infrastructure. The interests of multinationals and the Hungarian state are congruent with each other; but congruence differs from identity. Multinationals, and their subsidiaries, have different orientations from national governments. Multinationals respond to the interests of shareholders, interpreted by corporate boards, and of corporations as institutions. Decisions on capital investment, on the distribution of resources to subsidiaries, on the allocation of subsidiary mandates and product responsibilities, are made in the light of those interests, and competition. Corporate strategies and the structures established to realize them differ between corporations, in the light of their national institutions and cultures, and competitive pressures in different sectors and product markets. Such factors account for the different approaches to operations in Hungary between the Volkswagen Group in motor vehicles, which massively expanded investment in Audi in Győr, on the one hand, and GlaxoSmithKline in pharmaceuticals, which closed its regional headquarters in Budapest, on the other.

Globalization theorists suggest that the dynamics of competition are inevitably resulting in the dominance of multinational economic interests over national political interests. However, this undervalues the continuing significance of national politics. Successive Hungarian governments have encouraged multinational investment. But government decisions respond to a wider range of pressures, especially from national electorates, and balance multinational concerns against unrelated priorities. As the decisions of the Orban government indicate, those decisions may not always satisfy multinational interests, at least in the short run.

5. References

- Ackroyd, S. and Thompson, P. (1999) *Organizational Misbehavior* (London: Sage)
- Aidis, R. (2005) *Entrepreneurship in Transition Countries: a review. Working Paper No. 61.* London: Centre for the Study of Economic and Social Change in Europe, University College London.
- Antal-Mokos, Z. (1998) *Privatization, politics and economic performance in Hungary* (Cambridge: Cambridge University Press)
- Archibugi, D. and Michie, J. (1997) The Globalization of Technology: a New Taxonomy, in Archibugi, D. and Michie, J. (eds.) *Technology, Globalization and Economic Performance* (Cambridge: Cambridge University Press)
- Bandelj, N. (2008) *From Communists to Foreign Capitalists: The Social Foundations of Foreign Direct Investment in Postsocialist Europe* (Princeton: Princeton University Press)
- Bartlett, D.L. (1998) *The Political Economy of Dual Transformations: Market Reform and Democratization in Hungary* (Ann Arbor: University of Michigan Press)
- Berend, I.T. (1998) *Decades of Crisis: Central and Eastern Europe before World War II* (Berkeley: University of California Press)
- Birkinshaw, J.M. and Hood, N. (eds) (1998) *Multinational Corporate Evolution and Subsidiary Development* (London: Macmillan)
- Birkinshaw, J.M., Morrison, A.,J. (1995) Configurations of Strategy and Structure in Subsidiaries of Multinational Corporations, *Journal of International Business Studies*, 26, 4, 729-753.
- Bishop, K., Filatotchev, I. and Mickiewicz, T. (2002) Endogenous Ownership Structure: Factors Affecting the Post Privatization Equity in Largest Hungarian Firms. *Acta Oeconomica*, 52, 4, 443-471.
- Blaszczyk, B., Hoshi, I., and Woodward, R. (eds.) (2003) *Secondary Privatization in transition economies: The evolution of enterprise ownership in the Czech Republic, Poland and Slovenia* (Basingstoke: Palgrave)
- Burawoy, M. and Lukacs, J. (1994) *The Radiant Past: Ideology and Reality in Hungary's Road to Capitalism* (Chicago: University of Chicago Press)
- Business Central Europe, 1998*
- Campbell, K. (2002) Ownership Structure and the Operating Performance of Hungarian Firms, Working Paper No. 9. London: Centre for the Study of Social and Economic Change in Europe, University College London.
- Comisso, E. (1998) "Implicit" development strategies in Central East Europe and Cross National Production Networks, Working Paper 129 (Berkeley, Calif., BRIE).

- DiMaggio, P. (2001) Conclusion: The Futures of Business Organization and Paradoxes of Change, in DiMaggio, P. (ed.) *The Twenty-First-Century Firm: Changing Economic Organization in International Perspective* (Princeton: Princeton University Press)
- Djankov, S. and Murrell, P. (2002) *Enterprise Restructuring in Transition: a quantitative survey*. Washington: The World Bank
- Dore, R. (1987) *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues* (London: Athlone Press)
- Dosi, G. (1987) The Nature of the Innovative Process, in Dosi, G., Freeman, C., Nelson, R., Silverberg, G. and Soete, L. (eds.) *Technical Change and Economic Theory* (London: Pinter Publishers)
- Doz, Y. L. (1986) Government Policies and Global Industries, in Porter, M.E. (ed) *Competition in Global Industries* (Boston (Mass.): Harvard Business School Press).
- Dyker, D.A. (ed.) (1997) *The Technology of Transition: Science and Technology Policies for Transition Countries* (Budapest: Central European University Press)
- Dyker, D.A. (2006) Contrasting Patterns in the Internationalization of Supply Networks in the Motor Industries of Emerging Economies, *Post Communist Economies*, 18, 2, 189-204
- Earle, J.S., Kucsera, C. and Telegdy, A. (2001) *Corporate Control in Hungary*. Budapest: Department of Economics, Central European University.
- Ebers, M. (ed.) (1999) *The Formation of Inter-Organizational Networks* (Oxford: Oxford University Press)
- EBRD (2005) *Strategy for Hungary*. London: EBRD
- EBRD (2005a) *Transition Report*. London: EBRD.
- EBRD (2010) EBRD Annual Report, 2009. EBRD investments in Hungary (www.ebrd.com/downloads/research/annual/invest09.pdf accessed 10.02.2011)
- Edwards, T. and Rees, C. (eds.) *International Human Resource Management: Globalization, National Systems and multinational Companies* (Harlow: Pearson Education Ltd.)
- EU (2002a) *European Commission, 2002 Regular Report on Romania's Progress towards Accession, Com.2002 700 Final* (Brussels: Commission of the European Communities)
- European Bank for Reconstruction and Development (EBRD)
- Filatotchev, I., Isachenkova, N., and Mickiewicz, T. (2006) *Corporate Governance, Managers' Independence, Exporting and Performance of Firms in Transition Economies, Economics Working Paper No. 62*. London: Centre for the Study of Social and Economic Change in Europe, University College London.
- Fruin, W.M. (1997) *Knowledge Works: Managing Intellectual Capital at Toshiba* (New York: Oxford University Press).

- Frydman, R., Rapaczynski, A. and Earle, J.S. et al. (1993) *The Privatization Process in Central Europe* (Budapest: Central European University Press)
- Giddens, A. (1999) *Runaway World: How Globalization is Shaping our Lives* (London: Profile Books)
- Gordon, R. (1996) Globalization, New Production Systems and the Spatial Division of Labor, in Littek, W. and Charles, A. (eds.) *The New Division of Labor: Emerging Forms of Work Organization in International Perspective* (Berlin: Walter de Gruyter)
- Grabher, G. and Stark, D. (eds.) (1997) *Restructuring Networks in Post Socialism: Legacies, Linkages and Localities* (Oxford: Oxford University Press)
- Graziani, G (1998) Globalization and Production in the Textile and Clothing Industries: The Case of Italian Foreign Direct Investment and Outward Processing in Eastern Europe, Working Paper 128 (Berkeley, Calif.: BRIE)
- Grosse, R. (ed) (2005) *International Business and Government Relations in the 21st Century* (Cambridge: Cambridge University Press)
- Hamar, J. (2002) *FDI and Industrial Networks in Hungary. Working Paper No. 13*. London: Centre for the Study of Economic and Social Change in Europe, School of Slavonic and East European Studies, University College London.
- Hancke, B., Rhodes, M. and Thatcher, M. (2007) Introduction: Beyond Varieties of Capitalism, in Hancke, B., Rhodes, M. and Thatcher, M. (eds.) *Beyond Varieties of Capitalism: Conflict, Contradictions and Complementarities in the European Economy* (Oxford: Oxford University Press)
- Hanley, E., King, L. and Janos, I.T. (2002) The State, International Agencies, and Property Transformation in Post Communist Hungary, *American Journal of Sociology*, 108:1, 129-67
- Hardy, J. (1998) Cathedrals in the Desert? Transnationals, Corporate Strategy and Locality in Wrocław, *Regional Studies*, 32: 639-652
- Hardy, J. (2007) The New Competition and the New Economy: Poland in the International Division of Labor, *Europe-Asia Studies*, Vol.59, no.5, pp. 761-777
- Harzing, A.W.K. (1999) *Managing the Multinationals: an international study of Control Mechanisms* (Cheltenham: Edward Elgar)
- Held, D. and McGrew, A. (eds.) (2007) *Globalization Theory: Approaches and Controversies* Cambridge: Polity
- Hellman, J. S. and Schankerman, M. (2000) Intervention, corruption and capture: the nexus between enterprises and the state, Working Paper No. 58. London: EBRD.
- Hirst, P. and Thompson, G. (1999) *Globalization in Question*, 2nd ed., (Cambridge: Polity Press)
- Hofstede, G. (1994) *Culture and Organizations: Software of the Mind* (London: HarperCollins)
- Hungarian Central Statistical Office (2006) *Hungary in Figures 2005* (Budapest: Hungarian CSO)

- Inkpen, J. and Ramaswamy, K. (2006) *Global Strategy: Creating and Sustaining Advantage across Borders* (Oxford: Oxford University Press).
- Isachenkova, N. and Mickiewicz, T. (2003) *Ownership Characteristics and Access to Finance: Evidence from a Survey of Large Privatized Companies in Hungary and Poland. Working Paper No. 35.* London: Centre for the Study of Economic and Social Change in Europe, University College London.
- ITD, Hungary, 2010, Foreign Direct Investment: Hungary: The Logical Choice (http://www.itdh.com/engine.aspx?page=Itdh_Foreign)
- Jindra, B. (2007), Global Integration and Local Capability as Determinants of Multinational Subsidiaries' R & D Embeddedness - Evidence from Emerging Economies in Central East Europe. Contributed Paper for the 2007 Conference on Corporate R&D (Concord).
- Johnson, S., McMillan, J. and Woodruff, C. (1999) Property rights, finance and entrepreneurship, Working Paper No.43 (London: European Bank for reconstruction and Development)
- Jones, G. (2005) *Multinationals and Global Capitalism: From the Nineteenth to the Twenty-First Century* (Oxford: Oxford University Press)
- Katz, H.C. and Darbshire, O. (2000) *Converging Divergences: World Wide Changes in Employment Systems* (Ithaca, NY: Cornell University Press)
- Klapper, L.F., Sarria-Allende, V. and Sulla, V. (2002) *Small and Medium Size Enterprise Financing in Eastern Europe. Policy Research Working Paper No.2933.* Washington: The World Bank.
- Kogut, B. and Gittelman, M. (1998) Globalization , in Tung, R.L. (ed) *The IEBM Handbook of International Business*, 200-214.
- Kono, T. and Clegg, S. (1998) *Transformations of Corporate Culture: Experiences of Japanese Enterprises* (Berlin: Walter de Gruyter)
- KPMG/McDaniel, T. (2005) *Of Tigers, Dinosaurs and Gazelles: Defining competitive business models for manufacturers in the New Europe.* Bratislava: KPMG.
- Lampland, M. (1995) *The Object of Labor: Commodification in Socialist Hungary* (Chicago: University of Chicago Press)
- Lane, C. (1989) *Management and Labor in Europe: The Industrial Enterprise in Germany, Britain and France* (Aldershot: Edward Elgar)
- Lane, C. and Probert, J. (2009) *National Capitalisms, Global Production Networks: Fashioning the Value Chain in the UK, USA and Germany* (Oxford: Oxford University Press).
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R.W. (1998) Law and Finance, *Journal of Political Economy*, 106, 6, 1113-1155

- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R. (1999) Investor Protection: Origins, Consequences, Reform Working Paper No. 1883, (Harvard University: Harvard Institute for Economic Research)
- Majcen, B., Radosevic, S., and Rojec, M. (2006) Nature and determinants of Productivity Growth of Foreign Subsidiaries in Central and East European Countries Economics Working Paper No.68 (London: UCL Centre for the Study of Economic and Social Change in Europe)
- Major, I. (2003) What Makes Hungarian SMEs perform poorly? *Acta Oeconomica*, 53, 2, 109-43.
- Major, I. (2006) Technical efficiency, allocative efficiency and profitability of Hungarian Small and Medium Sized Enterprises: a model with frontier functions (CEU Business School, Working Paper)
- Mako, C. and Ellingsted M (1999) Globalizing FDI and modernizing management practices, in Mako, C. and Warhurst, C. (eds.) *The Management and Organization of Firms in the Global Context*. Budapest: University of Godollo.
- Mannix, K., Hannula, H. and Varblane, U. (2004) Country, Industry and Firm Size Effects on Foreign Subsidiary Strategy. An example of five CEE countries. (Working Paper, Faculty of Economics and Business Administration, University of Tartu, Finland).
- McDermott, G. A. (2003) *Embedded Politics: Industrial networks and institutional change in post communism* (Ann Arbor: University of Michigan Press)
- Meardi, G. (2002) The Trojan Horse for the Americanization of Europe? Polish Industrial Relations towards the EU, *European Journal of Industrial Relations*, 8, 1, 77-99
- Meyer, K. E. (1998) *Direct Investment in Economies in Transition: Making Central European Industries Competitive* (Cheltenham: Edward Elgar)
- Meyer, K.E. and Jensen, C. (2005) Foreign Direct Investment and Government Policy in Central and Eastern Europe, in Grosse, R. (ed.) *International Business and Government Relations in the 21st Century* (Cambridge: Cambridge University Press)
- Meyer, K.E. and Sinani, E. (2008) When and Where does Foreign Direct Investment Generate Positive Spillovers? A Meta-Analysis (forthcoming, *Journal of International Business Studies*)
- Myant, M. (2003) *The Rise and Fall of Czech Capitalism: Economic Developments in the Czech Republic since 1989* (Cheltenham: Edward Elgar)
- OECD (2010) StatExtracts: Country Stat. Profiles 2010 (<http://stats.oecd.org/Index.aspx?DataSetCode=CSP> 2010) accessed 10.2.2011
- Pajuste, A. (2002) *Corporate Governance and Stock Market Performance in Central and Eastern Europe: A Study of nine countries, 1994-2001. Working Paper No. 22*. London: Centre for the Study of Social and Economic Change in Europe, University College London.

- Pistor, K. (2000) *Patterns of Legal Change: shareholder and creditor rights in transition economies* Working Paper 49 (London: EBRD)
- Pop-Eleches, G. (2009) *From Economic Crisis to Reform: IMF Programs in Latin America and Eastern Europe* (Princeton: Princeton University Press)
- Porter, M.E. (1980) *Competitive Strategy: Techniques for analyzing industries and competitors* (New York: The Free Press)
- Porter, M. E. (1990) *The Competitive Advantage of Nations* (New York: The Free Press)
- Radosevic, S. (2002) The Electronics industry in central and eastern Europe: an emerging production location in the alignment of networks perspective, Working Paper No. 21 (Centre for the Study of Social and Economic Change in Europe, University College, London)
- Radosevic, S. and Yoruk, D.E. (2001) Videoton: the Growth of Enterprise through Entrepreneurship and Network Alignment, Working Paper in Economics and Business No.4, Department of Social Sciences, SSEES, London
- Radosevic, S. and Roseik, A. (2005) Foreign Direct Investment and Restructuring in the Automotive Industry in Central and East Europe, Working Paper No. 53 (Centre for the Study of Economic and Social Change in Europe, University College, London).
- Rona-Tas, A. (1997) *The Great Surprise and the Small Transformation* (Ann Arbor: University of Michigan Press)
- Roney, J.L. (2000) *Webs of Resistance in a Newly Privatized Polish Firm: Workers react to organizational transformations* (New York: Garland Publishing Inc.)
- Rose, R. (2009) *Understanding Post Communist Transformation: a bottom up approach* (London: Routledge)
- Scullion, H and Linehan, M. (2005) *International Human Resource Management: A critical text* (Basingstoke: Palgrave)
- Stark, D. (1996) Recombinant Property in East European Capitalism, *American Journal of Sociology*, 101:4, 993-1027
- Stark, D. and Bruszt L (1998) *Post socialist pathways: Transforming politics and property in East Central Europe* (Cambridge: Cambridge University Press)
- Stark, D. and Vedres, B. (2005) Social Times and Network Spaces: Sequence Analysis of Network Formation and Foreign Investment in Hungary, 1987-2001. New York: Department of Sociology, Columbia University.
- Stark, D. and Vedres, B. (2006) Social Times of Network Spaces: Network Sequences and Foreign Investment in Hungary, *American Journal of Sociology*, Vol.111, no.5, 1367-1411.

- Steves, F. and Rousso, A. (2003) Anti-corruption programs in post-communist transition countries and changes in the business environment 1999-2002, Working Paper No.85 (London: EBRD)
- Sturgeon, T. (1998) Turnkey production networks in Electronics: New Opportunities for Cross-Border Integration in Economic Development in Eastern Europe (Berkeley: BRIE)
- UNCTAD, (2008) *World Investment Report, 2008: Transnational Corporations and the Infrastructure Challenge* (New York: United Nations)
- UNECE (1995) 'Outward processing trade between the European Union and the associated countries of Eastern Europe: the case of textiles and clothing'. Ch. 4. *Economic Bulletin for Europe*, 47, 109-23.
- Vedres, B. (2004) Pathways from Postsocialism: Ownership Sequence and Performance of Firms in Hungary, 1991-1999. Budapest: Department of Sociology, Central European University.
- Vogel, S.K. (1996) *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries* (Ithaca (NY): Cornell University Press)
- Voszka, E. (1999) Privatization in Hungary: Results and Open Issues (http://www.cipe.org/publications/fs/ert/e32/e32_03.htm)
- World Bank Group (2011) (<http://www.doingbusiness.org/data/exploreeconomies/hungary>) accessed 15.2.2011