

Post-transition Multinationals

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Abstract: Since 1990, there have been many locally-owned and/or controlled firms in the Central and Eastern European post-socialist countries that have been successfully internationalised through foreign direct investment. The article, which presents preliminary results from a work in progress, attempts to define a typology of these firms to better understand and explain which companies are able to invest abroad. Relying on an industry-based view, the literature on emerging (state-owned) multinationals, and detailed company case studies, the article distinguishes four main types of foreign investors, each with distinct characteristics. This typology may help us to better understand the similarities and differences between post-transition multinationals and multinational firms originating from developed or emerging countries. Furthermore, it may improve understanding of newly emerging multinational companies, both in terms of the capabilities of these firms and the institutional and economic environment that supports internationalisation.

Keywords: post-transition multinationals, Central and Eastern Europe, state ownership

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1. Introduction

With different timing, but relatively soon after the start of the transition process, there have been outflows of direct capital from the former transition economies in East Central Europe, indicating the emergence of multinational companies from this region. Indeed, there are many firms that have successfully internationalised through foreign direct investment (FDI) from these countries. There are numerous, usually national-level studies, which try to explain why these multinationals have emerged, how they have internationalised, and how their internationalisation fits into existing theories.

The article relies mainly on an industry-based view as well as literature on emerging (state-owned) multinationals, and it identifies four main types of foreign investors, each with distinct characteristics. This typology may help us to better understand the similarities and differences between post-transition multinationals and multinational firms originating from developed or emerging countries. Furthermore, it may help to further the understanding of newly emerging multinational companies, both in terms of the capabilities of these firms and the institutional and economic environment, which supports (or hinders) internationalisation. This article presents the preliminary results of a work in progress, thus there are many opportunities for future research in the area.

The article is structured as follows. The first section shows cases of successful company internationalisation through FDI and highlights the heterogeneity of the group of post-transition multinational companies. The second section presents an argument for the need for a typology. The third section presents a theoretical framework and empirical precedents for this article. The fourth section explains the methodology used. The fifth section presents the typology, and the last section concludes.

2. Background

Outflows of foreign direct investment (FDI) started to increase significantly around 2005 in the analysed region as a whole.¹ However, in certain countries, there has already been a quick growth in outward FDI (OFDI) since the mid-nineties (e.g. Andreff, 2002; Kalotay, 2010; Radlo and Sass, 2012; Gorynia et al., 2012; Andreff and Andreff, 2017), indicating different timing among the analysed countries in terms of their outward FDI. For example, Hungary recorded a significant outflow in 1997 and then in 2000 (Sass et al., 2012). This latter piece of information indicates another important characteristic of outward FDI from former transition economies: a volatility of outflows that can be attributed to a few large transactions (Radlo and Sass, 2012).

However, outward FDI data contain foreign investments carried out not only by indigenous firms (direct outward FDI), but also by foreign-owned resident companies, i.e. subsidiaries of foreign, multinational corporations (MNCs) operating in the country in question (indirect outward FDI). Thus, an increase in FDI outflows does not necessarily indicate increased international expansion of domestic firms, as it can be the result of indirect outward FDI realised by local subsidiaries of foreign (third country) multinational companies, as is really the case in many transactions in East Central and Eastern Europe (CEE). (For example, Rugraff (2010) called attention to the different composition of the outward FDI of the Visegrad countries (the Czech Republic, Hungary, Poland and Slovakia) in terms of direct and indirect OFDI, i.e. the different shares of domestically-owned and foreign-owned firms in outward FDI. Andreff (2003) noted that Slovenia played the role of a “hub” for foreign investors towards former Yugoslav countries, and Estonia played that role for other Baltic states, resulting in a high level of indirect OFDI in total in these countries.)

That is why we have to look at the companies themselves, which invest abroad, if we want to identify multinational companies originating from the analysed countries. In that respect, we can see the emergence of some successful, large (regional) multinationals and numerous ones quickly internationalising through FDI, mainly small and medium-sized firms.

Among the “large” multinational companies, MOL and PKN Orlen, the Hungarian and Polish oil and gas firms, stand out in the CEE region in terms of foreign assets. In that respect, they are comparable to emerging multinational companies. According to data published in the framework of the Emerging Markets Global Players (EMGP) project of the Columbia Center on Sustainable Investment at

Columbia University in New York², in 2013 MOL had 18.8 billion USD, and in 2011 PKN Orlen had close to 6 billion USD in foreign assets.³ According to the firms' websites (www.mol.hu and www.pknorlen.pl, respectively), MOL is present in 25 countries with 64 affiliates, while PKN Orlen has invested in nine countries, where it owns 34 affiliates. They are present both in downstream and upstream industries, thus the motivations for their FDI is different in different locations. In the energy sector, there is another large multinational, the Czech CEZ⁴, which operates in Albania, Bulgaria, Hungary, Poland, Romania, Slovakia, Turkey, the Netherlands, Germany, and France.⁵

In the financial sector, the Hungarian OTP Bank is the only regional bank. It is present with foreign subsidiary banks in Central, Eastern, and Southeastern Europe in ten former transition economies, including Bulgaria, Romania, Russia, Ukraine, and the former Yugoslav countries. Its first foreign acquisition was made in Slovakia in 2001. Outward investments by OTP are clearly of a market-seeking nature (Sass et al., 2012; Antalóczy et al., 2014).

We can find companies successfully internationalising through FDI in manufacturing as well. The Hungarian Videoton is among the largest European electronics manufacturing service providers. Its foreign assets amounted to 277 million USD in 2013, by far the highest among CEE electronics firms (Sass, 2016). Videoton has affiliates in Bulgaria and Ukraine, with foreign direct investments realised with efficiency-seeking considerations. Similar is the case of the Polish Aparator Group, which has six subsidiaries, mainly in Eastern Europe, and 10 million USD assets abroad. Aparator manufactures switchgears, switchboards, and equipment for the energy and mining sectors (Kaliszúk and Wancio, 2013).

In the chemical industry, the Polish Synthos established a subsidiary in the Czech Republic with an 800 million USD investment, while Ciech from the same country had 16 foreign subsidiaries and 432 million USD in foreign assets in 2011 (Kaliszúk and Wancio, 2013). The Hungarian Richter, a pharma firm, is present not only in the CEE region with foreign subsidiaries, but also in Asia, America, and most recently Western Europe. Its foreign assets amounted to 743 million USD in 2013 (Sass and Kovács, 2015). The Polish BIOTON, active in biotechnology, has subsidiaries all over the world and close to 300 million USD in foreign assets (Kaliszúk and Wancio, 2013).

We can find emerging post-transition multinationals in the service sector as well, some of them “growing up” to the level of their developed country counterparts in terms of their size and markets. The Polish Asseco Group is now on the list of the leading European IT and software companies, and it owns affiliates in most major European countries.⁶ The Czech EPH is an important foreign investor in energy-related businesses.⁷

Besides the relatively large post-transition multinationals with substantial foreign assets, there are many small- to medium-sized companies successfully internationalising through FDI (e.g. NavNGo of Hungarian origin and Skype of Estonian origin), some of them can even be classified as ‘born globals’ or international new ventures (see e.g. Jarosinski, 2014; Nowinski and Rialp, 2013; Kiss, Danis, and Cavusgil, 2012; Danik, Kowalik, and Král, 2016; Vissak, 2007). There are cases of acquisitions of these

successful small firms by foreign investors, thus some of them are no longer considered post-transition multinationals as they have become a subsidiary of (owned by) a foreign firm. Furthermore, there are also a few large, successful investor firms, which have been acquired by foreign companies, such as the Hungarian Fornetti, which was sold to a Swiss investor, active in the same industry (food). This calls attention to the constantly changing landscape of CEE multinationals.

Thus, by now there are numerous multinationals originating from the post-socialist countries, and they differ to a great extent from one another with respect to their origins, size, pace of internationalisation, activities, industries, host countries, etc. There is also a constant entry and exit of firms from the group of post-transition multinational companies.

3. The aim of the research

Given the above-described heterogeneity of post-transition multinational companies, the main aim of the article is to develop a typology of these firms, which will allow for the categorisation of this heterogeneous group of companies into four main categories. This typology enables a better understanding of how these multinationals, and some of their main characteristics, evolve. It emphasizes the path-dependent nature of post-transition multinationals in two areas: first, in terms of the survival and then successful internationalisation of some of the large firms from the pre-transition period, and second, through analysing the (changing) role of the state in the internationalisation of companies through FDI. On the other hand, the typology also takes account the internationalisation of newly established companies through FDI. The elaboration of the typology allows not only a better understanding of which companies internationalise through FDI in post-transition economies, but also relates them to “classical” developed country multinational firms and to emerging multinational companies as well.

Post-transition multinationals in this article are defined as the group of companies internationalised through FDI in the new member states of the European Union, namely the Baltic countries (Estonia, Latvia, and Lithuania), the Visegrad countries (the Czech Republic, Hungary, Poland, and Slovakia), and Romania and Bulgaria, with the exception of Slovenia. The reason for the latter will be given in detail later. Thus, here we do not deal with multinational firms originating from the former Soviet Union, including Russia.⁸

4. Conceptual framework and review of the literature

The emergence of post-transition multinationals provides a unique opportunity for economic analysis, as the overwhelming majority of them started their internationalisation process at one point in the era of radical societal and economic change. That is why we base this conceptual analysis on multiple strands in the literature. In the elaboration of the typology, the article relies on four main strands in the literature.

First, the literature on multinational companies in general, and on emerging multinationals in particular, is presented to help in determining one element of the analytical framework. Second, the theories on state-owned companies and state-owned multinationals are another important source, providing other elements of the analytical framework. Third, the literature on the various international business aspects of the former transition economies of East Central Europe is presented, and the importance of certain features are highlighted. Fourth, there are a few direct precedents to this article in the literature, which analyse post-transition multinational companies from various aspects.

First, the emergence of post-transition multinationals is related to the literature and theory of emerging multinationals, a distinct group of multinational firms originating from emerging countries and having specific features compared to “classical” or developed country multinational companies (e.g. Lall, 1983; Andreff, 2003). Some authors underline that “classic” theories were elaborated based on empirical cases of multinational companies, originating from developed countries. There is an ongoing discussion in the literature on whether these “classic” theories or paradigms, especially the OLI-paradigm (Dunning, 1993), may explain the emergence of emerging multinational companies (e.g. Buckley et al., 2007; Kalotay and Sulstarova, 2010; Narula, 2006) or not – and if there is a need for specific theories (Matthews, 2002).

Many authors argue, that the “classic” theories explain the emergence of these emerging country multinationals, with certain boundary conditions that need to be taken into account (Hernandez and Guillén, 2018). According to another approach, while the “classic” theory is able to explain the emergence of emerging multinationals, certain of its assumptions need to be modified in order to fully explain the existence and operation of these emerging multinational firms. Many suggest extending the OLI paradigm by adding specific ownership advantage elements to it (Ramasamy et al., 2012; Ramamurti, 2012; Buckley et al, 2007; Kalotay, 2008), and thus the explanatory power of the “classic theory” is enhanced for the case of emerging multinational companies. This approach led to the distinction between country-specific advantages and firm-specific advantages, where the former is more important for emerging multinationals (see e.g. Lall, 1983; Cuervo-Cazurra and Un 2004; Andreff-Balcet, 2013). Another distinction is also trying to capture the specificities of these firms and thus “embed” them into existing theoretical approaches (Dunning and Lundan, 2008a). Here ownership advantages are divided into asset-based ownership advantages (e.g. cutting-edge technologies, marketing prowess, or powerful brand names), and transaction-based ownership advantages (e.g. the capacity of the hierarchy of multinational companies vis-à-vis external markets to seize transaction benefits, which are the results of the common governance of a network of these assets, which are located in different countries through FDI). Thus transaction-based ownership advantages are directly or indirectly formed by the home-country business environment, culture, government policies, etc. (see Kalotay et al., 2016 for Russian multinational companies in the Visegrad countries). Another extension is adding institution-based ownership advantages. According to Dunning and Lundan (2008b, p. 588), “The contemporary network MNE is best considered as a coordinator of a global system of value added

activities that are controlled and managed by it. Institutions play an important part in providing the underpinning “rules of the game”, which help determine the complementarity or substitutability of the different modes of coordination”. Furthermore, (p. 580): “The O-advantages require us to examine the extent to which it is possible to identify institutions (formal and informal) at the level of the firm, and the advantages derived from them (Oi)”. Thus, the authors consider institutions as important from the point of view of ownership advantages, both at the country and at the firm level. They also emphasize the interactions between O, L, and I advantages, thus different types of O advantages may influence I or L in different ways and differently over time.

The second strand of the literature this analysis relies on is the institution-based view of the firm, and the importance of institutions in determining or shaping the business environment in post-transition economies (Meyer and Peng, 2005; Hoskova and Hult, 2015). These authors emphasize the “specialty” of the CEE economic, business, and societal environment, where there has been a radical change from central planning to capitalism and a market economy. This poses special challenges to businesses, and three distinct groups of business actors must handle a different set of challenges in the analysed countries. These three groups are: foreign entrants, local incumbents, and local-start-ups (Meyer and Peng, 2005, p. 601). From the point of view of the conceptual analysis presented in this article, this distinction is especially important. Among post-transition multinationals, we also distinguish between “newly” (i.e. after the start of transition) established companies on one hand, and firms which existed before the transition process started and successfully survived the transition process itself on the other hand. These latter companies we call “inherited” firms from the pre-transition period. Within this latter group, Meyer and Peng (2005, p. 602) distinguish between state-owned enterprises and privatised firms. This distinction we also deem important nowadays and include in the conceptual analysis. In Meyer and Peng (2005), evidence of the importance of restructuring strategies for these enterprises are presented, and the failure of privatisation in many cases to provide incentives for management to improve firm performance is also highlighted. In that respect, the roles of the slowly changing institutional environment as well as informal rules and mechanisms are emphasized. Another important aspect is that “ambitious” and willing managers, CEOs, and owners could successfully transform their firms. Furthermore, through overviewing the results of the literature, Meyer and Peng (2005) emphasize the role of (institutional) context in influencing the way companies manage their resources. In that respect, they point out that inherited firm resources may provide a good basis for certain firms for improving their competitiveness. Leadership may be a critical element in that privatisation may disrupt the process of (gradual) transformation and raising of competitiveness. Here again, the path dependence is emphasized in the form of the stickiness of old knowledge and routines, which may hinder successful transformation and adaptation of resources to the new environment. These points are valid in our typology as well for the “inherited” companies.

For the other group of local companies, new start-ups, Meyer and Peng (2005) reiterate the result of the literature, according to which the role of the founding entrepreneurs is crucial in the success of their

firms. From the point of view of institutional theories, they emphasize that institutions in the (former) transition economies are of much greater importance than elsewhere. Their evolution is much quicker and not as organic as in other parts of the world, for example in emerging economies (Kostova and Hult, 2015). Based on the results of the literature, the importance of inherited “socialist” culture is emphasized, with features such as a low level of willingness to take risk or low level of initiative (Makhija and Stewart, 2002). In another aspect, from the point of view of low inclination to become entrepreneurs, Estrin and Mickiewicz (2010) emphasize the importance of the legacy of the planning economy. National cultural differences are also deep. Personal networks and informal contacts play a larger role than in developed countries. Thus, personal ties and macro, inter-organisation links with domestic and foreign, economic and non-economic actors may act as important assets of firms (Meyer and Peng, 2005), more important than in developed economies. Newly established firms face crucial barriers in the transition and post-transition era in survival and growth (Estrin et al., 2005). The institutional background is “fluid”, access to finance is problematic, and informal institutions may further hinder firm development. Networking for the new firms is also of very high importance. Thus, (former) transition economies provide an important case for the notion that “institutions matter”, however, the question still remains, what the main mechanisms are through which institutions affect the operation of firms (Meyer and Peng, 2005).

Other authors also emphasize the specific circumstances in the former transition economies, which are partly inherited from the pre-transition period, and partly created by the (quick or gradual, but in both cases fundamental) transformation of the societies and economies. In the pre-transition or planned economy era, there were basically no markets in operation, prices were virtual and international competitiveness could not be evaluated, even for firms exporting to market economies. Firms were not inventive technologically (Kornai, 1993). All companies (except for a few small-micro sized ones) were state-owned, which limited the elaboration and application of an independent company strategy. Thus, managers concentrated on their contacts and networks with other firms and party leaders. The economies were basically closed, CMEA⁹-trade was organised and controlled at the state-level. Contacts were limited with the non-CMEA world economy and usually went through a mediator state agency; thus firms were not in direct contact with their foreign partners (Kaminski, 1991). FDI in the socialist countries was basically not allowed. Foreign direct investments by firms in socialist countries were limited to representative offices for helping exports, and their operations were politics-related (Svetlicic, 2004). This heritage, understandably, left its marks on the evolving business and economic environment. This provided, at least at the beginning of the transition era, but in some areas even now, a very specific environment with country-specific “flavours”, which are distinct from that of both developed and developing country multinationals. Similar to Meyer and Peng (2005), the conclusion can be that this specific environment results in important factors, which shape the ownership advantages (especially transaction-related ones) of potential multinationals originating from the analysed region differently, compared to developed and developing-emerging countries.

Another important development from that point of view is the membership of these countries in the European Union. Both in the pre- and post-membership years there were many institutional changes initiated, guided, and controlled by the European Union. This provided a more “calculable” and operational business environment compared to other post-transition economies. As a result, in the analysed countries there is a level playing field concerning regulations compared to other EU member countries. This results in a considerably reduced risk factor for FDI (especially within the European Union). Many institutional factors, which affect outward FDI and the evolution of the international competitiveness (and ownership advantages) of firms, such as political stability, economic convergence, liberalisation of trade and capital, regulation quality, intellectual property rights, etc. have been influenced by the membership process of the countries in question (Demekas et al., 2007). These factors support the “handling together” of these countries and handling them separately from other post-transition economies.

The third strand of the literature we rely on is the analyses of state-owned multinational companies. In spite of their importance in the world economy, the analysis of the internationalisation of state-owned enterprises (SOEs) has been relatively neglected in the economics and international business literature (Bruton et al., 2015; Cuervo-Cazzura et al., 2014). The increasing internationalisation of state-owned companies from emerging economies and the increasing role of state-owned enterprises during the 2008 financial crisis and afterwards, turned the attention of researchers to these firms (Götz and Jankowska, 2016). In the former transition economies of CEE, in spite of the increasing role of the state after the financial crisis and the inheritance of stock in minority or majority state-owned companies from the planned economies, the topic is still not widely explored. (See as exceptions for Poland Kozarzewski and Baltowski (2016), Götz and Jankowska (2018) or for Hungary Szanyi (2014).) State-owned enterprises were expected to disappear after the socialist economies of CEE and Asia started to overwhelmingly change their systems to capitalism and privatisation. However, certain SOEs have survived and have been playing a bigger and bigger role in the national economies, and internationally, one reason for which is that they have evolved into hybrid organisations (Diefenbach and Sillence, 2011; Bruton et al., 2015), which are different, to a large extent, from their predecessors in the eighties to the beginning of the nineties. Another reason is their increased role in order to diminish the negative effects of the financial crisis (Götz and Jankowska, 2016; PWC, 2015). One important distinguishing feature historically is that in today’s SOEs the state has a much smaller, and private entities a much larger, ownership share than previously. Furthermore, a new mixture of state-owned companies has emerged: in certain cases a majority state ownership goes together with smaller state control and a high level of independence in operations for a large number of state-owned firms. On the other hand, low or minority state ownership can go hand-in-hand with high government control in other cases (Bruton et al., 2015; for Poland Baltowski and Kozarzewski, 2016). Thus, while the majority of the literature has handled SOEs as a uniform group, most recent developments induce scholars to approach these companies in a more nuanced way, using a framework, where the share of government and private ownership as well as

the extent of government and private control are all taken into account (Bruton et al., 2015; Cuervo-Cazzura et al., 2014; Inoue et al., 2013). At the same time, the numerical analyses of state-owned companies and the definition of state control has become very problematic. In the analysed countries, though their overall number and economic weight is low, certain SOEs have been playing an increasingly important role in the national economies – and some of them even internationally (Kowalski et al., 2013; Sass, 2017; Götz and Jankowska, 2018). However, how state ownership influences their internationalisation and foreign direct investments is still an open question (Götz and Jankowska, 2018).

The fourth strand of literature we rely on in the analysis are direct precedents to this study, which analyse post-transition multinationals as a distinct group of multinational companies. First, Andreff (2003) published a comprehensive study of new multinationals from (former) transition economies. He underlined that these “new” multinationals are different from the “red multinationals” of the planned economy era (see e.g. King et al., 1995), and are becoming more and more similar to Third World multinationals – at the time of the start of the internationalisation of Third World multinationals, in the late 70s. He also emphasized that the investment development path (IDP) model explains the emergence of all emerging multinationals. Svetlicic (2004) pointed out that the new multinationals from (former) transition economies are different from both developed country multinationals – in their nascent and emerging stages of 20 years ago (i.e. in the 80s) on one hand and emerging multinational companies on the other hand in many areas. These differences include their beginnings and developments, ownership shares in subsidiaries, ownership and type of investors, types of activities, geographical orientation, motivations, domestic push factors, external pull factors, and competitive advantages and strategy.

Hoskisson et al. (2013) analysed the new multinationals originating from mid-range emerging economies. Their examination is based on data from 60 countries, including, among others, CEE and other former transition economies; Brazil, Russia, India, China, and South Africa (BRICS); Portugal and Greece; Korea; and Mexico. Their findings justify the need to move beyond a simple dichotomy that divides the world into emerging and developed economies – and similarly multinational companies into two groups: developed country multinational companies and emerging multinationals. The universe of multinational companies is much more heterogeneous. They emphasize the importance of (home and host country) institutional factors as well as infrastructure and factor market development from the point of view of the emergence of multinational companies from various (non-developed) countries.

Stoian (2013) concentrated on the home country determinants of OFDI from post-communist economies. She showed different features of this latter compared to other emerging economies, pointing out that these two groups of countries have different economic fundamentals and different policy challenges. Stoian’s (2013) analysis is at the macro level with an augmented IDP framework, where institutional factors are introduced, which are specific to CEE countries. According to her results, OFDI is positively influenced by GDP per capita and inward FDI (this latter because inward FDI enables local

firms to become outward investors). Furthermore, she found that CEE multinationals' ownership advantages are not based on R&D. As far as the importance of the institutions is concerned, according to her results, competition policy enhances OFDI, while large scale privatisation, company restructuring, and trade liberalisation do not go together with larger outward FDI.

One of the most recent contributions to the analysis of post-socialist or post-transition multinationals is the article by Andreff and Andreff (2017). Based on the analysis of macro-level FDI data from 26 (former) transition economies, they point out the importance of push factors, such as the home country's level of economic development, the size of the home market, and the rate of economic growth as well as various technological variables, which are the major determinants of outward FDI. They found a lagged relationship between outward FDI and previous inward FDI. Overall, this last strand of literature emphasizes the special features of post-transition multinational companies in many areas, including the institutional factors playing an important role in their internationalisation.

5. Methodology and data

As has already been mentioned, when analysing the whole universe of multinational companies of a given country, available macrodata from the balance of payments say very little about the foreign direct investments of these firms. These data contain statistics on outward foreign direct investments realised by resident firms, both foreign-owned and domestically owned. When foreign-owned subsidiaries realise a foreign direct investment, it is obviously not connected to the emergence of local multinational firms. This is called indirect outward FDI, while outward FDI realised by domestic companies is called direct outward FDI. According to the definition presented by UN (1998, p. 145), direct investment abroad by a foreign affiliate is indirect FDI, signifying that the resulting asset-stock is owned by the parent firm via the foreign affiliate, and that it represents, therefore, an indirect flow of FDI from the parent's home country (and a direct flow of FDI from the country in which the affiliate is located). According to Kalotay (2012), there are various reasons why a multinational company undertakes indirect FDI, i.e. it channels its foreign investment through a third country subsidiary or affiliate (e.g. tax optimisation, hiding the real origin of the investor, managing FDI in a larger region through a regional "headquarters" subsidiary, etc.) Thus, the relative shares of indirect and direct outward FDI in total vary from country to country, depending on regulatory issues, geographic position, and on many other factors. As it was already mentioned, in the analysed countries, the share of indirect outward FDI in total outward FDI may vary to a great extent (Rugraff, 2010; Andreff and Andreff, 2017). According to another estimation for the electronics industry, based on company data comparing Poland, Hungary, and Slovenia (Sass, 2016), in Slovenia almost all outward FDI in this industry had been realised by Slovenian firms, whereas in the other two countries, only around one third of total outward FDI may be direct.

Data problems are further complicated by the notion of "virtual indirect" outward FDI and investor

companies. “Virtual indirect” investor firms are majority foreign-owned but domestically controlled firms, where the majority foreign ownership does not go together with foreign control for various reasons (Sass et al., 2012). We can distinguish at least three types of “virtual indirect” investor firms. First, there are relatively large companies privatised on the stock exchange, which, due to this special way of privatisation, have a dispersed majority foreign ownership with no controlling owner. The absence of the controlling owner is in certain cases enhanced by special regulations, for example as in the case of the Hungarian MOL, where no firm can have more than 10% voting rights, even if it owns more than 10% of the shares (Sass et al., 2012). While these company cases seem to be ambiguous, their classification as “virtual indirect” is reinforced by the EMGP project pointing at local control (for example the CEOs/directors are local citizens, the managerial board consists mainly or exclusively of local citizens, the language used in the firm is local and/or English, etc.) (Sass and Kovács, 2015). Second, there is another type of “virtual indirect” investor, connected to round-tripping, when the domestic investor first sets up a foreign subsidiary, and then this foreign subsidiary invests in the domestic economy. For example, the Hungarian Tri-Gránit is majority owned by a foreign company (Cyprus), which is in turn owned by a Hungarian private person. In these cases, one reason for roundtripping can be to conceal the real origin of the capital. Another reason can be to benefit from incentives, available for foreign investors but not for domestic investors (Kalotay, 2012). Obviously, this outward FDI is in reality a domestic investment. Third, an arbitrary case of “virtual indirect” outward investment can be the case of a domestic firm, in which foreign financial investors have a (slight) majority, but the operations of the firm are controlled by a local owner. For example, the case of the Czech EPH may be categorised as this third type of virtual indirect outward investor. Obviously, in these cases the firms in question can be considered to be local firms and indigenous foreign investors.

As was already mentioned, in the macro-level data there is no distinction made between direct and indirect OFDI, not to mention “virtual indirect” outward FDI. (In the new balance of payments methodology (BPM6), there is a distinction between the final/ultimate investor country and the immediate investor country for inward FDI, thus mirror statistics may give information about the direct-indirect relationship – if the majority of countries will publish inward FDI data according to the new methodology. The same “ultimate-immediate” distinction for outward FDI is not yet envisaged.)

These data problems explain why analysis of indigenous multinational companies is usually based on data at the company level, where ownership data are available. For example, the econometric analysis of Jindra et al. (2015) relies on company level data. Here we follow a similar approach, though we base this conceptual analysis on company case studies.

We concentrate on company cases from Hungarian, Polish, and Czech multinationals due to data availability.

6. Typology of post-transition MNCs

The diversity of post-transition multinationals was an important motivation for the author to try to categorise these firms in order to better understand their existence, emergence, survival, and factors of success on one hand and to explain their heterogeneity on the other hand. The review of the literature provided important insights into those special factors, which may explain the distinguishing features of these multinational firms. One important such factor is the “heritage” from the pre-transition, planned economy period. In order to capture that, we distinguish two groups of firms. The first of which are those which already existed and operated in the pre-transition era and were privatised partly or fully during the transition process. This is very similar to Meyer and Peng’s (2005) category of local incumbents. Here one important factor is that those firms, which were privatised relatively early in the transition process, benefitted from specific ownership advantages based on their heritage from the pre-transition period and on their knowledge about the transformation of a formerly state-owned company into one able to operate in a market economy environment. That helped their foreign investment activities. We found that factor important, for example, in the case of the international expansion of the Hungarian OTP Bank (Antalóczy et al., 2014). Many firms from this group started to invest abroad only after the transition process started (see Table 3). Many of them can be characterised as “born-again-global” firms (Bell et al., 2001). These companies had been among the leaders in their domestic markets, and they suddenly started to quickly internationalise through FDI.

The other group of firms consists of those companies which were established after the transition process started. We call them simply “new” companies. In Meyer and Peng (2005), they are called local start-ups. This grouping can be justified by the fact explained in the section containing the literature review. Country specificities pertaining to (post) transition economies are important. Companies in the first group (“inherited companies”) had to face a completely different environment after the closed, non-market pre-transition era; they had to operate in the initially turbulent times of the post-transition era with a high level of EU influence in forming the institutions and legal framework. Thus, they were created quite quickly compared to those in other transition economies. On the other hand, the EU provided “external checks and balances on their institutional and governance quality” (Kostova and Hult, 2015, p.6). These “inherited” companies had completely different knowledge and *modus operandi*, which they had to adapt relatively quickly in the newly forming environment. On the other hand, the second group of newly established companies faced only the initially turbulent, then calmer business and institutional environment of the post-transition period, resembling, to an increasing extent, a market economy. However, this period of radical transformations provides an environment, which is different from that of developed market economies on one hand (Meyer and Peng, 2005) and that of emerging economies on the other hand (Kostova and Hult, 2015).

The other factor we deem very important in the case of post-transition multinationals is the degree of state-influence – which may not necessary equal state ownership. Many authors call attention to the fact

that an important feature of emerging market MNCs is their close relationship with home states (see Nölke (2014)). In post-transition countries, due to the main feature of their previous system, state-ownership is widely present either temporarily, until the state-owned companies are privatised, or in the longer run, if they are kept in full or partial state ownership. Thus, this forms another part of the common “heritage” of the analysed countries. From the point of view of our analysis, this proved to be important, as there are many companies among the top indigenous foreign investors, in which there is state ownership. Furthermore, the results of the analysis of Bruton et al. (2015) are of special importance regarding the emergence of hybrid organisations, where the state can be a minority owner but still it controls the operation of the firm (and vice versa, where the state is a majority owner, but does not interfere to a significant extent in the operation of the company). That is why we call this distinguishing factor: state influence and changes in it.

Of course, this distinction is quite arbitrary and has to be decided on a case-by-case basis, where we assess whether state influence reaches a significant level and plays special importance from the point of view of the internationalisation of the firm in question. The more or less clear-cut company cases are those in which state ownership is still important, especially in industries related to natural resources and energy (Andreff and Andreff, 2017, p460). However, there may be cases where specificities of the sector or industry (e.g. state monopoly, high level of state intervention through regulations, easy access to state-related finance, etc.) may cause the emergence of a firm to be assessed as the result of state influence. These are much less clear-cut cases and need a much more detailed analysis.

The four groups of post-transition multinationals are described in Table 1.

Table 1. Typology of post-transition MNCs

	state influence	no state influence
inherited	<i>(minority) state-owned, former SOEs</i>	<i>privatised former SOEs</i>
new	<i>strong links to politics as a basis for quick growth (usually not through ownership)</i>	<i>newly established</i>

Source: compilation by the author

The companies can of course move from one category to another over time, non-state-owned companies can be nationalised or state influence can increase in another way as described above. State-owned companies may be privatised. Thus, Table 2 contains a snapshot of post-transition multinational company cases, belonging to one or another category at one point in time. However, it calls attention to the fact that all post-transition multinationals of the analysed countries can be categorised and that there are numerous companies in each category.

Table 2. Company cases from the Czech Republic, Hungary, and Poland in the four categories, 2017-18

	state influence	no direct state influence
inherited	CZ: CEZ HU: MOL, OTP, Richter Gedeon PL: PKN Orlen, PGNiG, LOTOS, Ciech, KGHM	CZ: Meopta, Metrostav HU: Videoton, Masterplast, Zalakerámia PL: Synthos, Polimex-Mostostal, Kopex, Koelner, Kety, Fasing, Apator, Sniezka, Relpol
new	CZ: Agrofert (?) HU: TriGránit PL: Tauron (?)	CZ: Avast, Qualcat, EPH, Jablotron, Kenvelo, Racom... HU: Waberer, MPF, Mediso, Jász-Plasztik, Solvo, Lambda-Com, Balabit, Matusz-Vad, AAM, Pureco... PL: Asseco, Bioton, Selena, AB, Cognor, Ferro, Comarch, PZ Cormay, Decora, Wielton, Toya, TelForceOne, Redan, Aplisens, Bakalland...

Source: author's compilation

A short note: Why are Slovenian multinationals a special case?

As we already noted, Slovenian multinationals are not included in this conceptual analysis, in spite of the fact that they have been widely analysed either on their own or in comparison with other post-transition multinationals. (See e.g. Svetlicic and Jaklic (2007), Jaklic (2009), Jaklic (2016).) However, they do not really fit this categorisation. The main reason can be found in the difference of Slovenia from other (post) transition economy (economic) features and the history of the Slovenian economy and its firms.

Slovenian firms have a much longer history of internationalisation, compared to other post-transition multinationals, due to the higher level of international openness starting as early as the 60s. This is important, as the age of the multinational company (Andreff, 2003), as well as the environment of its “start-up” internationalisation matters to a great extent and can explain and influence, for example through a learning process, the decision about and the success of internationalisation. As we can see in Table 3, the top locally-owned or controlled multinationals from Poland or Hungary started their foreign direct investments much later compared to their Slovenian counterparts.

Furthermore, this opportunity of internationalisation, which was open for the companies in Yugoslavia, allowed them to flee the planned economy environment to some extent. This explains that the motivations of “systems escape” were prevalent among ex-Yugoslav firms (Svetlicic, 2007), while not present in other countries. The perception of ownership was also to some extent different in Yugoslavia, compared to other planned economies, leading to significant differences at the level of companies and their management (see, among others, Estrin, 1991; Lydall, 1987).

Furthermore, there are many firms, which have become multinationals “overnight”, after the secession of Yugoslavia in 1991. This happened as these companies had assets in other (former) Yugoslav republics, which were considered from that moment to be foreign assets. More generally, as Liuhto (2001) named them: there are many “born multinationals” in the former socialist economies, where, after the break-up of Czechoslovakia¹⁰, the Soviet Union, and Yugoslavia, the assets of certain firms

were divided between more countries, resulting in the birth of a multinational company, without realising a foreign direct investment in a strict sense. In the case of Slovenia, Andreff and Andreff (2017, p. 449) note that "... Slovenia lost about 50% of the Yugoslav domestic market following its secession in 1991, but kept export capabilities through its network of newly "foreign" subsidiaries located in former Yugoslav republics." Furthermore, according to Jaklic (2016), the countries of the former Yugoslavia hosted 70% of Slovene OFDI stock in 2012, which points to a relatively large share of these "born multinationals" among Slovenian multinational companies. This process has been reinforced with the delayed and limited privatisation due to special ownership structures in the country, thus giving time to "born multinationals" and their newly emerged domestic counterparts to strengthen their international presence and competitiveness.

Table 3. Timeline: the date of first FDI by the top 5 foreign investor companies

Slovenia		Hungary		Poland	
Mercator	1991	MOL	1994	PKN Orlen	2003
Kolektor	1968	OTP	2001	PGNiG	1999
NLB Group	1970s	Gedeon Richter	1996	Asseco	2004
Gorenje	1970s	Videoton	1999	Synthos	2007
Krka	1974	KÉSZ	2001	Lotos	2006

Source: author's compilation based on the EMGP reports for Hungary, Poland, and Slovenia

Areas of analysis – comparing the four types of multinationals

The categorisation allows us to compare the four types of post-transition multinationals in many different areas. The validity of the categorisation is reinforced by the fact that companies within the the four types are quite uniform in many respects.

Table 4 presents the first, preliminary results of the analysis of the company cases, which are presented in Table 2. The four groups are compared in terms of their size; the dominant motivation for investing abroad; their dominant modes of entry abroad; the characteristics of the ownership advantages, which enable the companies in question to invest abroad; their main investment locations; and the main sectors, industries, or activities of the companies in question.

According to the size of foreign assets, which can be very different from the size of the company itself in terms of the number of employees or turnover, these multinationals are still relatively small-sized

Table 4. Characteristics of the four groups of post-transition multinational companies

	Group 1: state influence, inherited	Group 2: state influence, new	Group 3: no state influence, inherited	Group 4: no state influence, new
Size	Largest, comparable to emerging multinationals	Medium-large	Medium-large	Small-medium, a few large
Motivation	Mixed (depending on the activity), dominantly market seeking, but cases of natural resource seeking (oil-gas) and strategic asset seeking (pharma)	Mixed, mainly market-seeking	Mixed, mainly market-seeking, but certain efficiency-seeking as well	Mixed, mainly market-seeking
Mode of entry	M&A, first privatisation-related	M&A	Mixed (M&A and greenfield)	Mainly greenfield (small size)
Ownership advantage	OAt, OAi important – at least at the start of foreign expansion: cases of successful change (e.g. OTP)	OAt, OAi important	OAt – in the first years of foreign investments, later: OA: intangible asset based – similar to developed country multinationals	OA: similar to developed country firms'
Location advantage/geographical area of expansion	Mainly the CEE / post-transition region (exc. for natural resource seeking and for tax optimisation)	Mainly the CEE / post-transition region (plus tax havens for tax optimisation)	Mainly the CEE / post-transition region	The whole world, mainly developed countries (plus)
Sectors/industries/activities	“strategic” (or deemed to be): oil-gas, energy, financial services, (pharma)	Real estate, food – „regulatory dependent”	Manufacturing, (some services: construction)	Various, many innovative manufacturing and services

Source: author's compilation

(Andreff and Andreff, 2017) with a few exceptions. In the inherited former state-owned companies with state influence, we can find some companies which are comparable in size (in terms of their foreign assets) to BRICS emerging multinational economies (EMNEs). For example, as was already mentioned in Section 2, the largest non-financial foreign investor company in Hungary, MOL (petrol and gas industry) would be the third largest locally controlled investor company on the basis of the size of

foreign assets in Brazil, China, Mexico, or Russia. Another large company in the same industry, the Polish PKN Orlen would be around the fifth in these countries.¹¹ We can find some large companies, usually in large home countries (in our country group this is Poland), in the “new-no state influence” group as well. For example, the Asseco Group, as was already mentioned, is amongst the top indigenous foreign investor companies in Poland. It is the 3rd largest on the basis of foreign assets among direct (locally controlled) Polish investor companies, with close to 1.5 billion USD foreign assets in 2013 (Kaliszuk and Wancio, 2013). The company was established in 1991. At first, it was engaged mainly in the production of software for cooperative banks, and later it expanded operations to the banking and financial sector, insurance institutions, public administration, and industry (Kaliszuk and Wancio, 2013). At present it operates in many European countries, and outside Europe in Israel, the USA, Japan, and Canada. Its companies are listed on the Warsaw Stock Exchange, Tel-Aviv Stock Exchange as well as on the American NASDAQ Global Markets.¹²

At the other extreme, we can find many small- or even micro-sized companies, born globals and international new ventures (INVs), which are usually very highly innovative companies, that internationalise quickly, including through foreign direct investments. Some of them have basically no links with the domestic economy (Kozma and Sass, 2017). The overwhelming majority of these companies are in the “new-no state influence” group, though some of them, at least temporarily, may wander to the “new-state influence” group (see e.g. Antalóczy and Halász, 2011, for the Hungarian biotechnology industry).

Table 5. Breakdown of the top (sales) companies by ownership (number of companies)

	CEE company	Foreign individual	Local company	Local individual	MNC from outside CEE	State-owned	CEE individual	Total
Czech Republic	3	0	4	12	45	9	1	74
Hungary	3	0	0	2	53	9	0	67
Poland	0	3	21	32	92	34	0	182
Slovakia	2	0	0	0	25	5	0	32

Source: based on Deloitte (2016)

The low share and relative smallness of indigenous multinationals in the analysed countries is illustrated well by Table 5, which shows that large, regional (of Central and Eastern Europe, i.e. EU new

member states in origin) multinationals are hardly present among the top firms (according to sales) in the Visegrad countries.

As far as their main motivation is concerned, empirical studies have already shown that the market-seeking motive is dominant. This can be explained by the relatively small sizes of the domestic markets (Poland is the largest with 38 million inhabitants) and by the fact that these multinationals are relatively young (have started their international expansion only recently), and in the first stages of foreign expansion, usually market-seeking and natural resource seeking motives dominate. (For Poland see e.g. Buczkowski (2013), Kaliszuk-Wancio (2013), or Radlo (2012); for SMEs coming from selected new members of the EU see Svetlicic et al. (2007); for a large sample of CEE firms see Jindra et al. (2015).) Small, niche players, usually quickly internationalising, innovative, and, in certain cases, born global companies or international new ventures, go abroad mainly with a market-seeking motive because the home market is too small for them to operate profitably (Jaklic, 2016; Jarosinski, 2014; Kozma and Sass, 2017; Sass, 2012; Varblane et al., 2001). Furthermore, they want to be close to the “knowledge centre” of their fields, which explains why they tend to invest in the most developed markets (such as the US, Germany, or the UK) (Sass, 2012). Among our company cases, the market-seeking motive was also dominant. In the “inherited-state influence” group, because of industry specificities (oil and gas, energy) we can find foreign direct investment with a resource-seeking motive as well. In this same group, and among the larger, privatised companies (“inherited-no state influence”), we can find certain foreign projects with an efficiency-seeking motive, targeting countries with lower wages. In the case of the Hungarian Richter Gedeon (in the “inherited – with state influence” group) we could identify recent acquisitions in Western Europe with a strategic asset seeking motive (Antalóczy et al., 2014). Indeed, according to Jindra et al. (2015), a knowledge-seeking motive has become more and more important after the EU-accession of the analysed countries.

Concerning the modes of entry, many studies showed, that the predominant mode of entry of post-transition multinationals is through mergers and acquisitions (Andreff and Andreff, 2017). When M&A is realised in developed countries, that helps post-transition multinationals to gain access to certain intangible assets. However, we could find only a very few such cases. In the CEE region, either privatisation-related or not, M&A in many cases is equal to buying a dominant position in the given market. In other cases, for non-restructured companies, the experience of firms in countries which are more advanced in terms of transition, can be applied fruitfully in less developed post-transition economies. A good case for this is that of the Hungarian bank, OTP (Sass et al., 2012). Greenfield FDI is realised by many firms as well (for Poland see Kowalewski and Radlo, 2014), mainly for seeking efficiency. The smallest-sized, usually innovative firms, which establish a representative office, small laboratory, etc. abroad, usually do it through a greenfield investment (Sass, 2012).

Ownership advantages are very complex and dynamic, especially in the case of inherited companies, which have a much longer history compared to the “new” companies, and thus had to adapt themselves to a (in many cases turbulently) changing business environment. Thus, extended ownership advantages,

with transaction-based and institution-based types may be very useful in this analysis. The main problem is that there are very few studies on the composition, elements, and changes in the ownership advantages of post-transition multinational companies. According to our preliminary results, for the “inherited” company group, there may be numerous and fundamental changes in the composition of ownership advantages (see the case of the Hungarian OTP Bank, Antalóczy et al., 2014). What we can say with certainty: the ownership advantages are mainly asset-based in the case of the companies in the “new-no state influence” group.

As far as the geographical areas of expansion are concerned, here again, we can identify important changes over time. For the majority of groups (inherited and new-state influence), the area neighbouring the home country in the post-transition region is the most important. More mature, older multinationals venture further away. Tax optimising multinationals expand to tax havens, even outside Europe. Opposed to that, as was already mentioned, many SMEs, especially the highly innovative ones, consider the whole world to be their market. Furthermore, they prefer to be close to their main consumers and scientific hubs, both located in the most developed countries.

In terms of the main sectors, industries or activities, we find strategic (or deemed to be strategic by the government) activities in the “inherited-state-influence” group. Similar activities and “regulatory background dependent” activities or activities with large government projects are carried out by companies in the “new-state-influence” group. The other two groups are estimated to contain various types of activities.

7. Conclusions

After the transition process started, there have been many successful multinational companies emerging in these post-transition countries. Their universe is quite heterogeneous, containing many different types of companies, in terms of their ownership structure, activities, ownership advantages, positions on the domestic market, etc. This article, which presents preliminary results of a work in progress, tries to define a typology of these multinational companies in order to better understand and explain which firms are able to invest abroad. Its analytical framework relies on institutional approaches and theoretical developments concerning emerging multinationals and state-owned multinational companies. Data problems are numerous, when one wants to rely on macro level, balance of payments data on outward FDI. That is why this analysis is based on company cases. The categorisation is differentiating post-transition multinational companies according to state influence and according to the time when they started their operations (whether in the pre- or post-transition period). The four groups of companies differ from each other along various characteristics. However, the validity of the categorisation should be reinforced by adding results of the analysis of further company cases.

8. Further research

This is a work-in-progress, which is trying to show that due to the specific circumstances of their reintegration into the world economy and the survival of certain state-owned companies and emerging multinationals from post-transition countries (mainly from East Central European EU member countries), these firms have very specific features. Their heterogeneity can be explained by the existence of four distinct groups of companies. However, due to data problems, the analysis should go down to the company level and it should be deepened by adding more company cases in order to better identify and understand the characteristics of the four groups.

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Notes

¹ For a history of outward FDI in the region before 1990 see Andreff and Andreff (2017).

² <http://ccsi.columbia.edu/publications/emgp/>

³ For comparison: Lukoil and Gazprom had 29 and 21 billion USD foreign assets in 2011, respectively. (See: http://ccsi.columbia.edu/files/2015/04/Russia_2013.pdf)

⁴ <https://www.cez.cz/en/cez-group/cez-group.html>

⁵ <https://www.cez.cz/en/cez-group/cez-group/foreign-equity-shares.html>

⁶ <https://asseco.com/>

⁷ <https://www.eholding.cz/en/>

⁸ For numerous analyses on Russian outward FDI, which has very different motivations and factors, see e.g. Panibratov and Latukha (2014), Kalotay and Sulstarova (2010) or Mizobata (2014).

⁹ CMEA – Council for Mutual Economic Assistance.

¹⁰ See Zemplerova (2012) for developments in Czech outward FDI, where the largest investment projects are not connected to these “born multinationals”.

¹¹ Author’s calculations based on the country reports prepared in the framework of the Emerging Market Global Players project coordinated by the Vale Columbia Center at Columbia University, see <http://ccsi.columbia.edu/publications/emgp/>

¹² <https://assecoco.com/>

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