

# Foreign Markets and Foreign Managers

Miklós Koren    Krisztina Orbán    Álmos Telegdy

# Motivation

# The end of a Qatari project in Budapest



Husztai István / Telex (2021)

# The end of a Qatari project in Budapest

- ▶ Qatari real estate investors made several high-value investments in Budapest in 2015 (Brückner 2021).
- ▶ For them, however, the projects were small, not worth delegating an expatriate manager.
- ▶ Business deals, even simple decisions often took months.
- ▶ Finally, they sold their stake in December 2020.

## Research question

- ▶ What role do expatriate managers play in foreign direct investment?
- ▶ Do they facilitate trade with their “home country”?

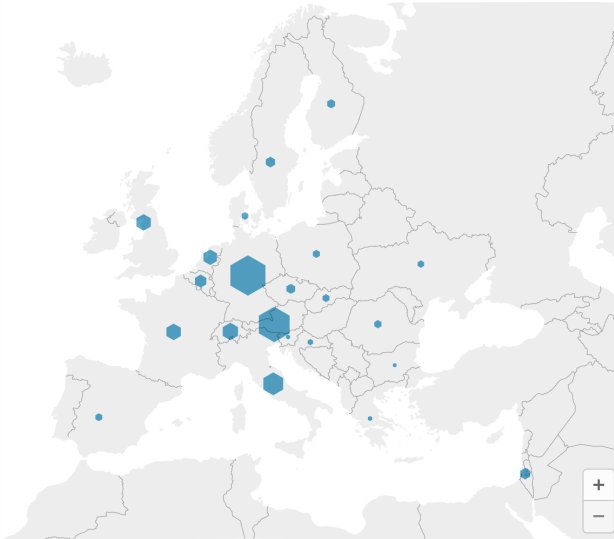
Data

# Data

- ▶ Administrative data on *all* Hungarian corporations, 1992–2018.
- ▶ Financial data, trade transactions (1992–2003)

# Largest investment partners of Hungary 1992–2003

## Expatriate Managers in Hungarian Firms



*Number of firms with managers from the given country between 1992 and 2003.*

Map: Koren, Orbán and Telegdy • [Get the data](#) • Created with [Datawrapper](#)



# Foreign owners often replace managers

## Foreign Owners Often Replace Managers



*Sample: Hungarian corporations with 20+ employees 1992-2003.*

Chart: Koren, Orbán and Telegdy • [Get the data](#) • Created with [Datawrapper](#)

## Inferring ethnicity from name

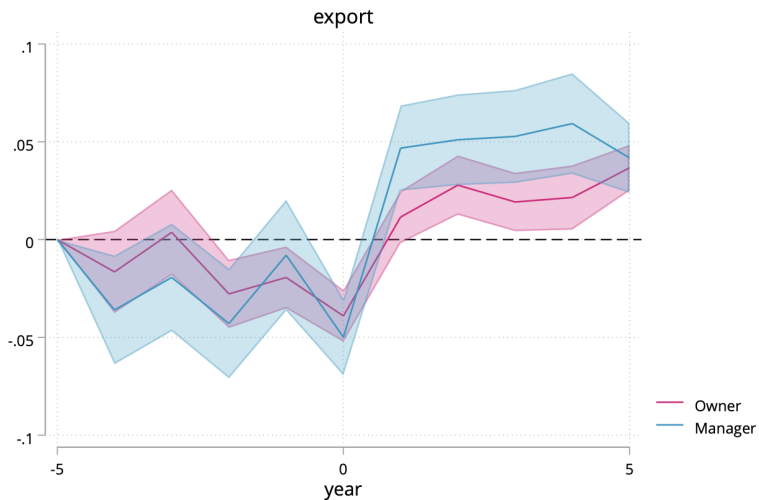
Address	Name	Partner	count	lang	ethn
DE	Klaudia Wolf	DE	1	1	1
DE	Klaudia Wolf	AT	0	1	1
DE	Klaudia Wolf	IT	0	0	0
DE	Enrico Mazzanti	DE	1	1	0
DE	Enrico Mazzanti	AT	0	1	0
DE	Enrico Mazzanti	IT	0	0	1
IT	Fioretta Luchesi	DE	0	0	0
IT	Fioretta Luchesi	AT	0	0	0
IT	Fioretta Luchesi	IT	1	1	1

## Estimating equation

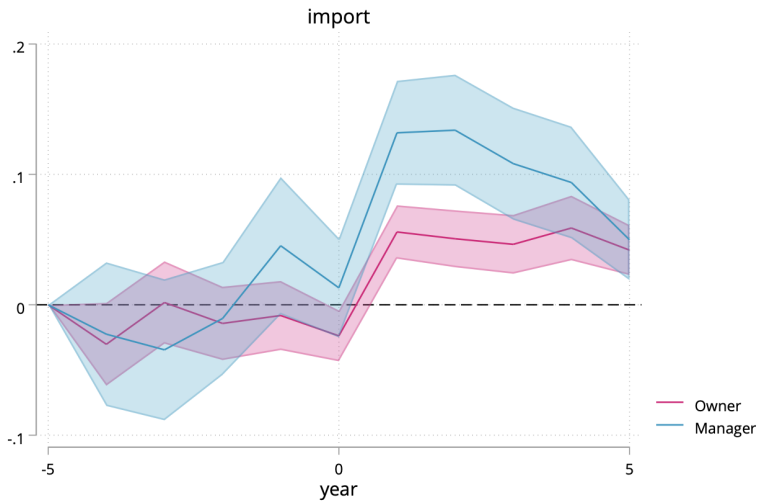
For each firm-year, take 24 major partner countries. What is the hazard of starting to export/import to/from that country?

$$\begin{aligned}\Pr(X_{ict} = 1 | X_{ict-1} = 0) = & \alpha_{ic} + \mu_{ct} + \nu_{it} \\ & + \beta_o \text{OWNER}_{ict} + \beta_m \text{MANAGER}_{ict} + u_{ict}\end{aligned}$$

# Large and permanent effects on exports



## And on imports



## Discussion

## Effects are large

### Fixed-cost estimates in Halpern, Koren and Szeidl (2015)

Equivalent to \$12-14,000 drop in fixed costs “per year”.

Scenario	Import hazard	Fixed cost
Average firm	0.010	\$15,000
Only owner	0.081	\$2,300
Only manager	0.106	\$1,700
Both	0.226	\$600

### Trade experience premia

Mion, Opromolla and Sforza (2016) estimate a 0.01–0.04 increase in hazard after manager with relevant export experience joins. Bisztray, Koren and Szeidl (2018) estimate 0.002–0.005 peer effects in importing.

# Three stories

## Vertical integration

Foreign owner takes over firm to export/import within own supply chain.

## Professional network

Managers help connect different firms within their professional network.

## Business culture

Managers know the business culture of their home country.



# Why managers matter

Three broader implications:

1. Trade within “supply chains” larger than previously thought.
2. Entry into new trade markets is inelastic.
3. Experience with existing partners leads to preferential attachment.

## Business network trade

- ▶ Contrary to evidence from US, investment in Hungary leads to large increases in trade with home region.

## Inelastic market entry

- ▶ If professional networks are hard to build, extensive margin of trade is less responsive.
- ▶ Competitiveness leads to higher manager wages, not more entry.
- ▶ Complementarity of trade and migration policies.

# Preferential attachment

- ▶ It may be easier to trade with friends of friends.
- ▶ We (will) highlight a mechanism for why that is.

## Conclusions

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- ▶ We find firm-level evidence that the nationality and ethnicity of owners and managers matters for the direction of trade.
- ▶ Whatever the specific mechanism, we need to model markets and individuals jointly.