

Foreign Markets and Foreign Managers

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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”?

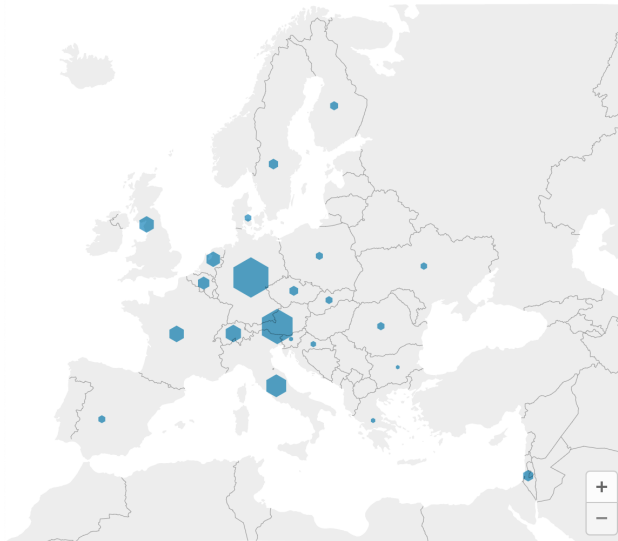
Data

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

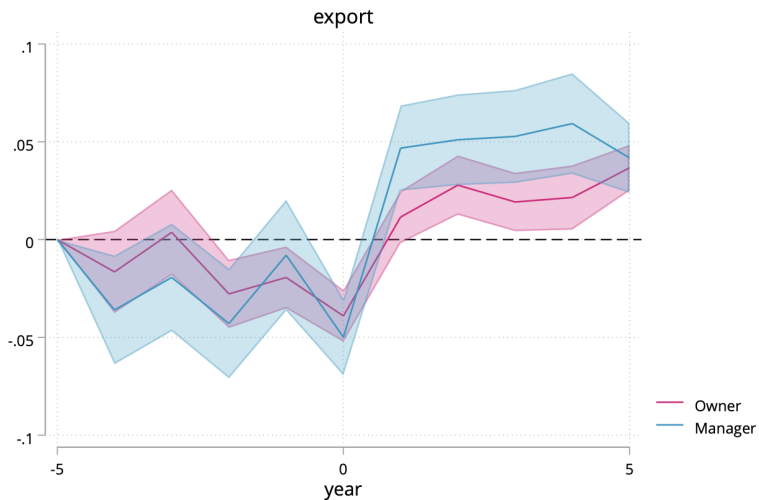
Address	Name	Partner	count	lang	ethn
DE	Klaudia Wolf	DE	1	1	1
DE	Klaudia Wolf	AT	0	1	1
DE	Klaudia Wolf	IT	0	0	0
DE	Enrico Mazzanti	DE	1	1	0
DE	Enrico Mazzanti	AT	0	1	0
DE	Enrico Mazzanti	IT	0	0	1
IT	Fioretta Luchesi	DE	0	0	0
IT	Fioretta Luchesi	AT	0	0	0
IT	Fioretta Luchesi	IT	1	1	1

Estimating equation

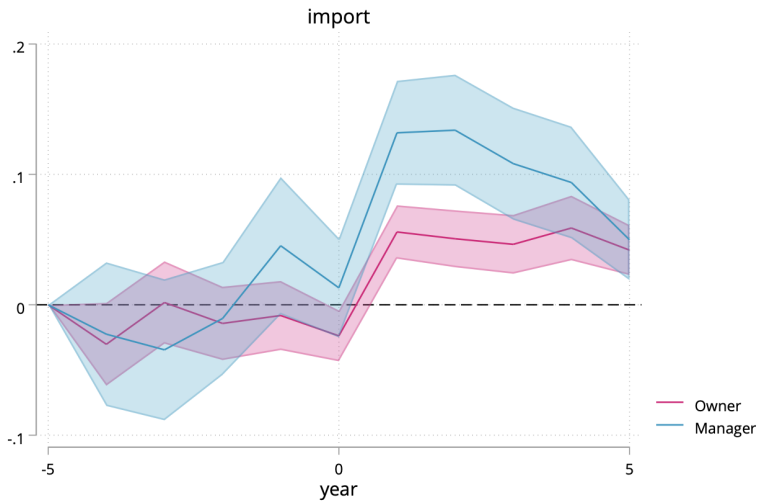
For each firm-year, take 24 major partner countries. What is the hazard of starting to export/import to/from that country?

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

Large and permanent effects on exports



And on imports



Discussion

Effects are large

Relative to 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, Oromolla 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.