

# The Role and Impact of Fairness on Cooperation in Hungarian Metal and Machinery Supply Chains

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*Abstract: Our survey investigates fair behaviour on one hand from network perceptions and on the other hands if ethical behaviour brings benefits for companies in their relationships. The results of our qualitative research show that fair behaviour has certain positives and actors perceive network effects as one of general conditions around them.*

*Keywords: business ethics, supply chain, business network*

## 1 Introduction

A business network can be approached by network of interactively connected business ties. On one hand the networks offer a natural arena for ethical issues while it colligates the divergent interests of actors<sup>1</sup>. This raises the question how much a company is able to give up its own goals and plans so as to support another business partner. But in this way business network can increase its members' well-being because it believes and follows the importance of collective aims and interests<sup>2</sup>. On the other hand business relationships inside a network include ethical norms as mechanism of business management<sup>3</sup>.

The globalisation and spread and development of supply chains mean an obvious need and challenge to shift the focus of b2b investigations from relationship level

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<sup>1</sup> Halinen, Aino - Päivi Jokela (2014) Exploring Ethics in Business Networks: Propositions for Future Research. IMP Conference Bordeaux, France

<sup>2</sup> Ford, D. - Håkansson, H. - Johanson, J. (1986) How do companies interact, Industrial Marketing and Purchasing, Vol. 1, No. 1, 26–41

<sup>3</sup> Håkansson, H. – Snehota, I. (1995) (ed.) Developing relationships in business networks, London, Routledge

to network sphere<sup>4,5,6</sup>. In this study we set ethics and its more concrete form fairness into the spotlight and describe what existing research reveals about their importance for business networks.

Our study first shows a short summary of relevant literature. In the second part of our study we introduce the first findings of our survey when during course of in-depth interviews we ask Hungarian companies and advisors from metal and machinery industries about the roles of business ethics in their supply chains.

## 2 Literature review

In this chapter we look through briefly the relevant literature of business ethics mainly from network aspects. Business ethics is a form of applied ethics. It includes not only the analysis of moral norms and moral values, but also attempts to apply conclusions of this analysis to the assortment of institutions, technologies, transactions, activities and pursuits that we call business<sup>7</sup>.

An early survey of 1300 leaders of totally 325 enterprises in Hungary in 1996 showed a quite mixed picture handling ethics on a firm level<sup>8</sup>. The researchers of this survey had the opinion that handling ethics at firm level was at early stage while about 10 per cents of respondents had their own ethical codex. Those firms showed more ethical behaviour which tried to achieve larger turnover in developed export markets. But according to their data the ethical behaviour of Western companies operating in Hungary were not outstanding in those years.

Hajnalka Csáfor<sup>9</sup> found that the most important motivation of continuity of corporate social responsibility (CSR) of the interviewed large Hungarian firms was 'to apply for their basic company values'. This result seems to confirm Szegedi's<sup>10</sup> view for strengthening ethical issues. In Csáfor's survey other

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<sup>4</sup> Halinen, A. - Törnroos, J.-Å. (1998) The role of embeddedness in the evolution of business networks, *Scandinavian Journal of Management*, Vol. 14, No. 3, 187–205

<sup>5</sup> Veres L. (2008) Kihívások Kelet-Közép-Európa logisztikai versenyében, *Közép-Európai Közlemények 2008./2. I. évfolyam 2. szám*, Szeged, 93-109. pp. ISSN: 1789-6339

<sup>6</sup> Veres L. (2009) Regionális logisztikai rendszerAek, *Közép-Európai Közlemények 2009./4-5. szám* 150-157 pp., Szeged. ISSN: 1789-6339

<sup>7</sup> Velasquez, M.G. (2012) *Business Ethics - Concepts & Cases*, Pearson Education, Inc.

<sup>8</sup> Chikán A. (1997) *Vállalatok és funkciók integrálója - Folyamatjellegű irányítás - alprojekt záró tanulmánya*. Budapesti Közgazdaságtudományi Egyetem, Vállalatgazdaságtan tanszék

<sup>9</sup> Csáfor H. (2010) Mennyire felelősek az Észak-magyarországi régió vállalatai? *Periodica Oeconomica*, III. ÉVF. November p. 22–36

<sup>10</sup> Miskolci Egyetem

essential priorities were: ‘acting as ethical company’, ‘contribution to sustainable development’ and ‘maintenance of good reputation’ finally ‘getting more customers and new markets’. The investigated small- and medium sized enterprises (SMEs) represent a little bit different opinion. The SMEs think that ‘getting more customers and new markets’ is the most important and only after this aspect come “decrease of costs”, ‘maintenance of good reputation’. Finally they rank ‘acting as ethical company’ and ‘contribution to sustainable development’<sup>9</sup>. The two very different priority lists – based on sizes of respondents – prove that for SMEs the short term profitability plays a much more important role. We have found a cultural speciality during review of relevant Hungarian literature. When authors deal with issues of ethics they often focus on unethical behaviour or more concretely corruption (e.g.<sup>11, 12</sup>).

We use now Chikán’s<sup>13</sup> definitions for supply chain: such value creating row of processes, which is necessary for establishment of certain product and service package and steps out the boundary of cooperating organizations in order to satisfy customer demands. The building stones of supply chains are the different kinds of organizations and their relationships. The conceptual framework of supply chain in Cooper et al.’s<sup>14</sup> view emphasizes the interrelated nature of supply chain management (SCM) and the need to proceed through several steps to design and successfully manage a supply chain.

Hámori et al.<sup>15</sup> (2007) investigated the competitive and cooperative behaviours of companies and found that 63 per cents of respondents thought that cooperative attitude is low among economic actors and in 22 cases (28 per cents) identified lack of trust as result. The second frequent reason was lack of cooperation. Kolos et al.<sup>16</sup> also find that such characters of inter-personal relationships as sincerity, reliability and readiness to help, have basic importance in evaluation of relationships.

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<sup>11</sup> Fazekas M., Tóth István János, Lawrence Peter King (2013): Anatomy of grand corruption: A composite corruption risk index based on objective data. Corruption Research Centre Budapest

<sup>12</sup> Czibik Ágnes, Hajdu Miklós, Makó Ágnes, Tóth István János, Várhalmi Zoltán (2011): Integritás és korrupciós kockázatok a magyar vállalati szektorban. MKIK Gazdaság- és Vállalkozáskutató Intézet, Budapest

<sup>13</sup> Chikán, A. (2004): Vállalatgazdaságtan, Aula Kiadó Budapest

<sup>14</sup> Cooper, M. C. - Lambert, D. M. - Pagh, J. D. (1997): Supply Chain Management: More Than a New Name for Logistics. *The International Journal of Logistics Management* 8(1), 1–13

<sup>15</sup> Hámori B. – Szabó K. – Derecskei A. – Hurta H. – Tóth L. (2007): Versengő és kooperatív magatartás az átalakuló gazdaságban, *Közgazdasági Szemle (Journal of Economic Literature)*, LIV. évf. June, 579–601.

<sup>16</sup> Kolos K. (ed.) (2006) Vállalatközi kapcsolatok és a versenyképesség összefüggései – Projekt záró-tanulmány, BUDAPESTI CORVINUS EGYETEM - VÁLLALATGAZDASÁGTAN INTÉZET, 44. sz. Műhelytanulmány

In Hungary, after the dissolution of the Eastern Block the foreign ownership of total Hungarian economy was 11 % in 1992 and this rate achieved 41% by 2000 which is extremely high even in international comparison<sup>17</sup>. FDI had and still today has positive effects on Hungarian export and strengthened Hungary's position in world economy. Between 1992 and 2004 Hungary welcomed totally 40.7 billion USD FDI. This amount per capita is three times higher than the Czech and Polish data<sup>18</sup>. So the companies with foreign ownership have achieved dominant role in most of the key sectors in Hungary. Multinational companies have found the country as an interesting option for investing and sourcing, for example in machinery industry firms of foreign ownership accounts for 78 %<sup>18</sup> and skilled workforce has encouraged establishment of R&D centres<sup>19</sup>. The Hungarian automotive industry has developed on the base of the earlier manufacturing of trucks and buses. The location in the Central Europe with markets in the West and in the East, and the ability to offer manufacturing at a relatively low cost and good quality have been key in attracting business partners (The Central and Eastern European automotive market).

According to relevant publications ethics in business and ethical behaviour can offer various benefits, such as

- acts to prevent a substantial harm to others<sup>20</sup>
- contributes to successful performance<sup>21</sup>
- generally has positive effects on diadic relationships<sup>22</sup>
- increases profit<sup>22</sup>
- generally has positive effects on diadic relationships<sup>23</sup>
- results more stabile business relationships<sup>24</sup>

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<sup>17</sup> Kádár, Z. - Markovszky, S. (2004) "Külföldi működőtőke beáramlás Magyarországon", (Inflow of FDI in Hungary) Országos Tudományos Diákköri Konferencia, 1. díj.

<sup>18</sup> Karsai, G. (1999) "A magyar gazdaság folyamatai, 1990-98" (The processes of the Hungarian economy between 1990 and 1998), Helyzetkép a TEP makro-forgatókönyveihez, Budapest

<sup>19</sup> Farkas, Z. (2002) "Hopp és kopp", HVG (Weekly World Economics in Hungarian) 09.12.2002

<sup>20</sup> Robin, D. (2009) Towards an applied meaning for ethics in business, *Journal of Business Ethics*, Vol. 89, No. 1, 139–150

<sup>21</sup> Ferrell, O. - Frederich, J. - Ferrell, L. (2012) *Business ethics: Ethical decision making & cases* (Vol. 9). Boston: Cengage Learning

<sup>22</sup> Luo, Y. (2009): From gain-sharing to gain-generation: The quest for distributive justice in international joint ventures, *Journal of International Management*, Vol. 15, 343–356.

<sup>23</sup> Halinen, A., Salmi, A. and Havila, V. (1999) From dyadic change to changing business networks: An analytical framework", *Journal of Management Studies*, Vol. 36, No. 6, 779-794.

<sup>24</sup> Luo, Y. (2006) Toward the micro- and macro-level consequences of interactional justice in cross-cultural joint ventures, *Human Relations*, Vol. 8, No. 59, 1019–1047.

- arouses larger satisfaction between the partners<sup>25</sup>
- causes less conflicts<sup>26</sup>
- leads to growing reputation<sup>26</sup>
- improves long term competitiveness and economic performance.<sup>1</sup>

Therefore our research questions are simple: Is it worthy to act and behave ethically? Does it bring benefits? If so, what kind of advantages can managers expect from ethics?

### 3 Introduction of our empirical survey and findings

Our empirical survey is the Hungarian pillar of a Finnish research in University of Turku where the methodology was developed and tested. We used depth interviews of qualitative methodology<sup>27</sup> because of the very sensitive topic. In our study the depth interviews are semi-structured, which means there are quite detailed sub points and naturally it is not obligatory to answer each question. Our aim is to use out flexibility of this method<sup>28</sup> and to give freedom for respondents to speak bravely about such a sensitive topic. Certainly we guarantee anonymity during data collection, analysis and publications as well.

In this paper we deal with the Hungarian research. (The international comparison see e.g. <sup>29</sup>) The ten depth interviews were made in 2015-16. We want to analyse various issues of fair behaviour in metal and machinery supply chains so three interviews are made with experts and the rest with practitioners. When we talk to experts, they summarize their several decades' experiences, which means in our survey much more than 10 organisations are included. These talks represent various sizes of companies and their main distribution markets are also different. A part of them sells their products only in domestic market but others produce dominantly for export markets. Empirical data was collected with interviews and the main informants in the companies were senior managers, CEOs and one

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<sup>25</sup> organizational contracts and justice in marketing channel relationships, *Journal of Business Research*, Vol. 59, No. 2, 166–175

<sup>26</sup> Christopher, M. - Gaudenzi, B. (2009) Exploiting knowledge across networks through reputation management, *Industrial Marketing Management*, Vol. 38, No. 2, 191–197

<sup>27</sup> Malhotra, Naresh K. (2007): *Marketing research*. Pearson

<sup>28</sup> Yeung, Henry Wai-chung (1995) Qualitative Personal Interviews in International Business Research: Some Lessons from a Study of Hong Kong Transnational Corporations. *International Business Review* Vol. 4, No. 3, pp. 313-339

<sup>29</sup> Jokela, Päivi - Halinen, Aino - Piricz Noémi (2016) Competitive bidding and contracts - The impact of perceived fairness on relationship continuity among Finnish and Hungarian metal and machinery industry actors. IMP Conference, Poznan, Poland Conference Proceedings [http://www.impgroup.org/paper\\_view.php?viewPaper=8829](http://www.impgroup.org/paper_view.php?viewPaper=8829)

director of a board. Sensitivity also was a limitation in the study; the Hungarian companies in particular were hesitant to disclose their views to the researchers. We should add that respondents are successful firms. It seems to be logical that a successful – and possibly ethical – firm speaks with pleasure about these topics. Now the question is which was earlier: ethical behaviour or success?

### **3.1 General findings**

The Hungarian economy is after transition from the socialist system to the capitalist one. In the previous system (actually it was also a mixed system but in a different way) many factors were determined centrally and mostly state-owned companies had to fulfil the plans so ethics played smaller role. In the early 90's foreign investors appeared and bought old-fashioned companies in mass privatisation. A few experienced Hungarian former-leaders started their own enterprises in small scales. If they have managed to survived their first years they can operate today. The majority of respondents are from this group. They started in small size in the early 90's and now they are successful medium-sized firms with stable export markets.

As an expert says the companies that exist nowadays in the Hungarian metal and machinery sectors were established by foreign capital. They have foreign ownerships still today. They pay taxes in Hungary and contribute to the Hungarian GDP but no other effects can come out of their company gate. He also thinks they do not turn back their profit into the Hungarian economy like a normal domestic enterprise. Regarding suppliers they seem to prefer foreign suppliers.

The ethical behaviour can be more vital in asymmetric business ties where ownership and use of resources are unbalanced<sup>30</sup>. We see that asymmetric business relationships belong to hot topics but its network aspect is less investigated. Mouzas and Ford<sup>29</sup> state that interactive dependency does not definitely mean equal access to resources and it may happen that even the actors have chosen this case and we confirm their view.

Almost each respondent shared an unethical case, for example:

- “If a competitor makes an offer with irrationally low prices, potential buyers expect us to follow this. In spite of this, the firm which made this impossible offer went bankrupt soon after this deal.” (medium-sized firm)
- “The car assemblers ask more at lower prices. For instance at first the assembler orders 100 pieces for 1000 units but later 10000 pieces for 50 units.” (TIER-1 supplier)

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<sup>30</sup> Mouzas, S. - Ford, D. (2007) Contracts in asymmetric relationships. The Proceedings of the 22nd IMP Conference, Milan

- A buyer disappeared without payment.
- Another buyer instead of announcing its worsening financial situation, starts quality complaining, and they not only postpone payment but cause additional quality inspection costs for supplier.
- Business partners may cheat with taxes. This is unfair for competitors because these cheaters can calculate at lower costs and become more competitive.
- Certain buyers may expect extraordinary flexibility and even determine the supplier's suppliers.

Despite these unethical behaviours the general opinion is optimistic and companies think it is not general but rarerly happens. They try to learn from these and have a view that this belongs to risks of business.

We met an interesting but seemingly successful method how to handle the so called Chinese effect: A respondent explained that a Chinese competitor copied their product in a false quality and the buyer was not satisfied. So the (Western European) buyer turned to this Hungarian firm and asked to build and install the complex system in China. They did it and it works well now, the Hungarian firm controls it through a remote control system from Hungary. The Hungarian firm is not worrying of being copied again because on the one hand they cannot keep their system in store (but has to sell) and on the other the Hungarian firm is better (and has satisfied buyer) for the time being.

### **3.2 Respondents' supply chain experiences**

We state that respondents are usually aware of various network affects. It seems that this is already a natural part of their environment. However we find another common feature of supply chains; this is the dominant role of the largest member of supply chain. This actor is generally located closest to the final customer. For example during procurement a large company receives the complex order and it gives many tasks further to its subcontractors and these subcontractors also give over some tasks to their subcontractors etc. In other case the car assembler gives almost final contact to the buyer – without any negotiations on it – and this position gives them both responsibility and power. It seems they practically instruct their suppliers. Certainly it is also the assembler's interest that suppliers fulfil good performance but the car assemblers treat them severely.

It seems that size and position in the supply chain are the two most important factors which influence behaviour of companies in metal and manufacturing sectors. The leaders' and owners' personal attitude play another vital role.

Some typical answers to confirm our opinion:

- “We are medium-sized not only from statistical aspects but also due to our position in our supply chain. We are stressed from above and below and also sideways.”
- “Our position in the ‘food chain’: we already have to finance our activity but the firms below us are unable to finance themselves.”
- “Who is the dominant actor of supply chain? Just look at the direction of capital flow and you will immediately know it.”
- “There is no freedom for anyone. The network affect is the system of conditions where I live in.”
- “The impacts of multinationals are strong. They misuse their power including unwritten rules too.”

### **3.3 Does fair behaviour always pay off?**

We meet very various cases and opinions regarding partners’ fairness. Most of the respondents think it is beneficial: it brings respect from buyers, it is a good reference and in quality management it belongs to normal processes (e.g. in car industry supplier should indicate own quality problems as soon as it is detected in factory). However some respondents call attention to bad tendencies where unfair companies can flourish in markets as well.

Our respondents said concerning fairness:

- “The economic responsibility lasts to the point it does not conflict interests.”
- “The aim is profit still today. The capitalist world operates like this. Only there are some bargains due to the interest of social cooperation.”
- “The fair behaviour almost always pays off. In quality management there is for example self-improvement what both our buyers and we practice towards our suppliers. This is good because if the customer recognizes a problem, comes here and it turns out that I have known that but did not mention, that is a much larger mistake.”
- “We know there are certain partners who pay only if we ask payment before delivery.”
- ”I remember a case when a project was postponed one year because one subcontractor did not indicate serious problems and did not strive to cooperate.”

## **Conclusions**

It is surprising and interesting when we inquire about competition, in most cases they start to speak about fairness. The opinions on general development of fairness is varying because some respondents explain negative tendencies and growing numbers of unfair stories while others identify positive changes in this field.

Especially a respondent from quality insurance is optimistic and sees improvements. However a company owner simply says that he feels himself well when he behaves fairly. This means that market forces, economic logic just as well as internal needs can result ethical behaviour. Experts and the majority of managers agree that very unethical behaviour finally will have relevant consequences. But on contrary the very ethical companies will not reap their reward. This situation seems a little bit strange and does it give lesson to find the 'optimal' way somewhere between?

We understand that nowadays networking is a "conscious status" as it has been indicated by Kolos et al<sup>16</sup>. However this still operates in a little passive way. Firms are aware of network effects and interdependency. They also see when cooperation does not work and a few network actors withdraw some information but they do not think that they could play a more active role and they could develop and improve their network as well. They seem to be more active in their dyadic relationships.

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