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"Industrial Integration and Growth of Firm in Transition Economies: The case of a French Multinational Company"

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INDUSTRIAL INTEGRATION AND GROWTH OF FIRM IN TRANSITION ECONOMIES: THE CASE OF A FRENCH MULTINATIONAL COMPANY[♣]

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Abstract

In the last decade, the prospect of accession of Central and East European countries (CEECs) to the European Union has given momentum to the discussion of their economic integration into the EU. Thus, academic studies have generally focused on variables at the macro level and are conducted in the light of quantitative methodologies in social sciences. This paper instead focuses mainly on the industrial integration of the CEECs into the EU at the firm and inter-organisational level, and uses in-depth, face-to-face interview techniques. Examining the growth of a multinational firm that operates in CEE in the context of networks help us to determine the depth of east-west industrial networks. In this light, the aim of this paper is to contribute to the development of the 'network alignment' framework from the perspective of the multinational companies located and operating in CEE. The growth of the French Soufflet Group in CEECs is taken as an exemplar to demonstrate the need to link the elements of the existing literature on foreign direct investment (multinational companies) with an evolutionary approach, through consideration of evolving and multiple networks.

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"The great prestige of the large firm rests on its ability to explore, to experiment, and to innovate; it is this ability together with the market position that its reputation, and the reputation of its products, can command, which give rise to many of the economies of expansion."
Penrose, *The Theory of the Growth of the Firm*, p. 262

1. Introduction

In the last decade, the prospect of accession of Central and East European countries (CEECs) to the European Union has given momentum to the discussion of their economic integration into the EU. The role of foreign direct investment has been a major concern in this context. For this reason, academic studies have generally focused on variables at the macro level and are conducted in the light of quantitative methodologies in social sciences.

This paper instead focuses mainly on the industrial integration of the CEECs into the EU at the firm and inter-organisational level, and uses in-depth, face-to-face interview techniques. As the quotation from Penrose (Penrose 1995) indicates, large firms are the crucial actors in the emergence and development of the networks at different levels, i.e. global, national and local, through the resources and capabilities embodied in them. Therefore, the expansion of the West European multinational firms has significant influence on the industrial integration of central and east Europe into the EU.

The activities of a multinational company and its linkages in central and east Europe are at the core of our discussion in this paper. Examining the growth of a multinational firm that operates in central and east Europe in the context of networks help us to determine the depth of east-west industrial networks. In theoretical terms, this paper proposes that there is need to link the literature on foreign direct investment with an evolutionary approach to industrial advance.

In this light, the aim of this paper is to contribute to the development of the ‘network alignment’ framework from the perspective of the multinational companies located and operating in central and east Europe. The case of the Soufflet Group is relevant to explaining the role of multinational companies in the development of networks at global, national and local levels, in spite of their own relative non-alignment; with its presence since 1998 in five of the CEECs. The choice of entry of the Soufflet Group into these countries, the strong emphasis on market-seeking strategy, and the degree of its internalisation policy, all shed light on the growth of the company in the context of network development through externalisation of some of its activities in the value chain.

The second part of the paper sheds light on the overall framework in examining the Soufflet case study. The third part first sets out a brief history of the Soufflet Group and then introduces its activities. The fourth part evaluates the Soufflet Group in central and east Europe and touches upon the choice of entry by Soufflet. The fifth part examines the local network formation, aiming at having a closer look at the development of the Group’s relationships with its barley and seed suppliers, as a result of its strategies (market-seeking in the local markets). The sixth and seventh parts deal with the characteristics and structure of the national and global network of the Group, respectively. The eighth part draws conclusions in the light of the discussion throughout the case study.

2. Theoretical approaches to the governance of the multinational company

By envisaging firm growth as relying on internal (firm capabilities) and external dynamics (industrial networks), we are led to analyse the growth of a foreign company in a host country in the context of the network alignment framework. This framework has been initiated by Kim and von Tunzelmann (1998) in examining the development of the Taiwanese IT industry in the light of both demand and supply sides. The alignment in question is between global, national and local networks whose interaction results ultimately in a 'network of networks'. The central issue is how the domestic (Taiwanese) IT firms develop national and local (internal) networks, and succeed in incorporating their activities within the global (external) networks. Their analysis is at the industry level.

As is well known, the development of global networks is strongly shaped by the multinational companies whereas the national and local networks are mainly dependent upon the strength of the national or regional (innovation) systems within countries. Therefore the actors in national and local networks are not only the (domestic and foreign) firms with relatively strong capabilities to participate in these networks, but also markets and the state. In the Taiwanese IT industry, they seemed to play their parts successfully either directly or indirectly, even though each network was acting in its own interests.

In the case of central and east Europe, the state has significantly less or no influence on the development of inter-firm relationships and on their involvement in cooperation with other organisations, either directly or indirectly. Additionally, it does not have any role in the development of multinational companies' networks, except through trying to keep the dynamics of the economy attractive to them. The market, as can be expected with the transformation to market economies, has the major role of stimulating competition among the firms and forcing them to improve their capabilities and strategies through internal and external means. As the one of the main players, (foreign) firms are expected to integrate their global networks with the local and national networks. The networks we are referring to are either production or technology networks. However, they are strongly supported via trade and finance networks.

The integration of the global networks of the multinational companies with the national and local networks in the central and east European economies has been impeded either by the lack of strong national networks or by the strategies[1] of the multinational companies that operate in these economies. The fact that the national networks that were in place through the imperative of the state during the communist period have been loosened after the transition gives a partial explanation for the weakness of these networks. Both the financial turmoil the domestic firms faced and the lack of organisational capabilities within them have led to transformation in these firms in order to catch up with the functioning of the market economies. Today many of them struggle to accomplish this transformation. Only a handful of distinctive domestic firms in each industry have managed to overcome these difficulties and pressed ahead to integrate into global networks and trying to develop national or local networks. Under these circumstances, the political and institutional environments the multinational firms confronted when they first entered these markets were (already) significantly damaged.

The key element in this integration of the networks is the foreign firm itself. There are several approaches to multinational companies in the literature. The strategies as defined above, the mode of entry, the internalisation policy and the growth mode are the principal issues that we will try to examine in the light of the evolutionary approach. So, these constitute the objectives in the network alignment analysis of this paper from the multinational company point of view.

The strategies of the multinational companies with regard to their growth policy change according to their role in the formation of these national or local networks. The extent of their involvement in these national economies via local networks brings about changes in these strategies. In particular, the multinational food companies have entered these economies mainly with production facilities, either by acquisition or greenfield investments, or by leasing, as in the case of the Soufflet Group (see below), predominantly with a market-seeking strategy. This strategy has been complemented with efficiency and knowledge-seeking strategies. When these latter strategies are pursued by the subsidiary of the multinational company and implemented primarily for the national or local market rather than for the whole Group operating in the world market, the development of the national or local networks by the multinational companies and their involvement in these networks is hastened.

[1] Strategies are classified as market-, efficiency- and knowledge-seeking strategies.

The entry mode choice in a foreign market is a decisive action of the multinational company. Several different perspectives have been scrutinised in recent work: why mergers and acquisitions are preferable to joint ventures (Hennart and Reddy 1997), the choice of entry mode within the boundaries of an eclectic framework (Hill, Hwang, and Kim 1990), the motivations and variables that influence the entry choice, and so on. The arguments in these studies have mainly relied on criticisms of the transaction cost approach or its comparison with other approaches such as organisational capability (Madhok 1997). Internalisation theory, which has emerged from transaction costs theory, suggests a high degree of control and greater proprietary rights over products and processes due to market failures of information and high risks of dissemination of knowledge (Buckley and Casson 1979; Caves 1982; Williamson 1985). An alternative approach to mode of entry is the evolutionary one (Mutinelli and Piscitello 1998), which points out that the firm might not be capable of building all the needed knowledge and competencies internally and hence might be forced to acquire these outside, so influencing its growth strategy.

Hill et al. (1990) explain the degree of control as: authority over operational and strategic decision-making; resource commitment in dedicated assets that cannot be redeployed to alternative uses without cost; and dissemination risk that firm-specific advantages in know-how will be expropriated by a licensing or joint venture partner. They try to reconcile these three aspects with the modes of entry imposed by the international business literature. According to the latter, the multinational enterprises choose to enter a foreign market by three modes. These are: licensing as a non-equity contractual mode with aspects of low degree of control, low resource commitment and high dissemination risk; the joint venture as an equity-based cooperative venture with the three aspects depending on the ownership split between the venture partners; and a wholly owned subsidiary with high degree of control, high resource commitment and low dissemination risk (Hill, Hwang, and Kim 1990). This view is based on the internalisation theory. Madhok (1997) discusses choice of entry mode in relation to the efficient use of resources and capabilities of the firm as well as enhancement or development of these capabilities in organisational terms. This approach implies developing a strong base for the firm in these countries to build up in the future. The development and deployment of the knowledge base of a firm is reflected in the mode of entry, and the mode of entry is strongly associated with the management of firm capabilities.

The evolutionary approach to the entry mode choice represented by Mutinelli and Piscitello (1998) contrasts with internalisation theory by giving importance to the resource-based view of the firm as well as the competence-based theory. According to these authors, the transactions costs that are faced as a result of the entry and uncertainty relating to the foreign markets are reduced through co-operative solutions. Moreover, the co-operation increases if the multinational company has competitive advantages like technological opportunities, tacit skills and competencies. So, the multinational companies have a tendency to engage in governance structures that reduce the risks and costs of going abroad (Mutinelli and Piscitello 1998). However this does not necessarily mean that the *monadic*[2] structure of the 1980s multinational companies have transformed into dyadic (or more partners) structures. Within a monadic structure, production and technology-related co-operation is still possible, notably through the formation and development of local networks. The Soufflet case will shed light on this issue.

International internalisation brings a reduction of transaction costs by buying or creating complementary assets in different nations and integrating their operations within a single unit of control. However, the internalisation might be restricted to the organisational level. At the production level, vertical integration has been converted into international or national externalisation of activities in the value chain where upstream and/or downstream players are linked to the production stage through non-equity (informal) relationships.

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[2] Mutinelli and Piscitello (1998) define the monad as a self-contained and internally controlled administrative system in which a globally optimising parent supervises a constellation of controlled or wholly-owned foreign subsidiaries.

International internalisation does not change the ownership of the product but the organisational structure might alter, particularly in respect of management which can reflect the personality of the subsidiary manager and his perception of the situation in the host country. This type of managerial ability is related to firm capabilities embodied in the multinational company either at parent or at subsidiary level. Host country differences can influence the outcome of the benefits derived from the externalisation of activities with regard to both private and social rates of return.

The growth of the French Soufflet Group in CEECs is taken as an exemplar to demonstrate the need to link the elements of the existing literature on foreign direct investment (multinational companies) with an evolutionary approach, through consideration of evolving and multiple networks. The network alignment approach will thus serve as an integrating framework for our discussion.

3. Soufflet: outline history and main activities

Groupe Soufflet is one of the French companies that performs successfully in the world agri-food chain. In the French food industry, out of 14 multinational food companies it takes seventh place with regard to its 1999/2000 turnover, despite shrinking compared to the previous year (see Table 1). However, by 2000, it had become the largest company in farm grain procurement, in supplying inputs to French vineyards, in grain exports, in wheat and maize milling (see Table 3), in malting, and in dried vegetable and pulse processing. Only in rice processing is it the second company in France. These positions make it the fifth largest French exporter in the agro-industry sector. In Europe it is the largest flour miller, and it is the largest wheat flour and malt exporter, as the third largest maltster in the world (see Table 2) (Soufflet Group 2000).

Soufflet is one of the cornerstones of the growth of the grain industry not only in France and the EU but also in the CEECs. It plays a significant role in enhancing grain farming, trading and processing via constantly pursuing research and development[3] in the subject area. Soufflet aspires to translate its specialisation and experience into new areas in the form of vertical diversification of its business.

Soufflet is a family company whose roots go back to the beginning of the 20th century. The very first acquisition of a grain business took place in 1900, located where farmers delivered their crops. As early as 1939, the first silo for grain was built by Jean Soufflet, founder of the family-business Etablissements Soufflet in 1946 with the legal status of an SARL. The business is located in Nogent sur Seine, where also the present headquarters of Soufflet Group are. The original activity of the company was comprised of collection and trading of cereals within France, which has extended to European countries like Germany, Belgium and the Netherlands during the 1950s. In 1966, an international trade dimension was gained through the attempts of Michel Soufflet, the son of the owner Jean Soufflet, who took over the company in 1957 when his father died. The subsidiary in the UK was established in 1974.

[3] The research and development of the Group is conducted via a subcontracted research company instead of through in-house R&D. There is extensive quality control within the Group.

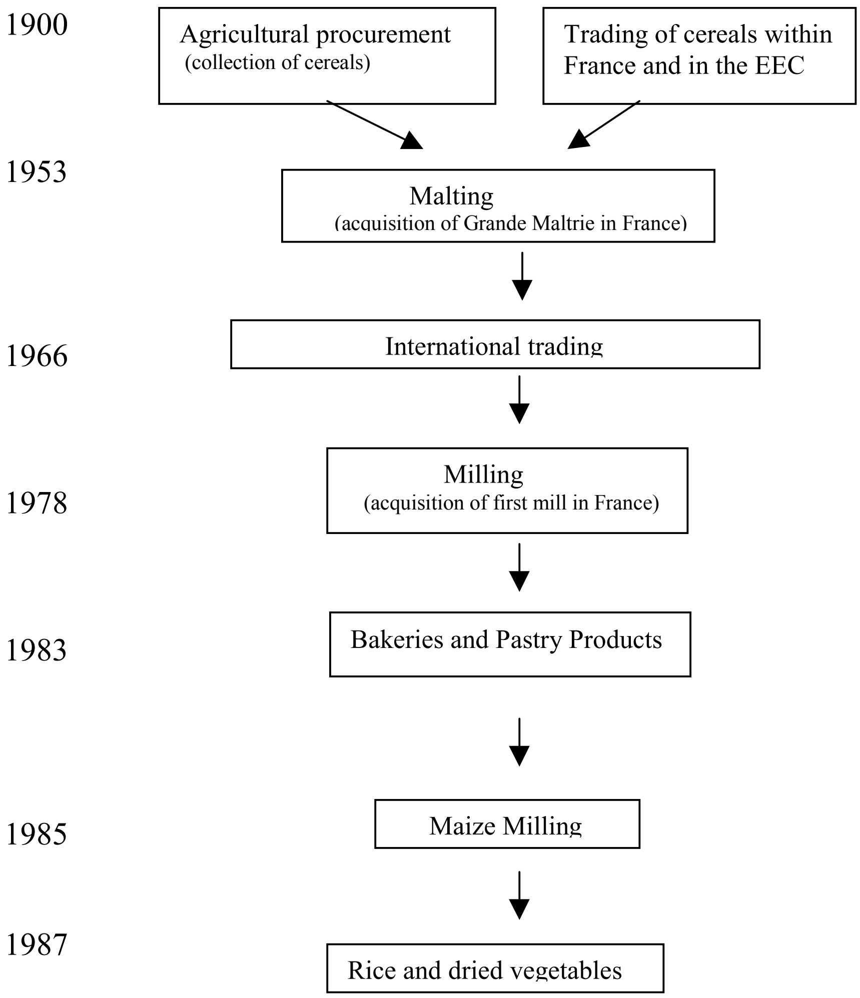
Table 1: The position of Soufflet in the Agro-industry in France

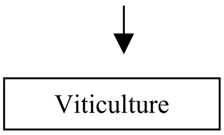
Rank	Name of the Company	Turnover 1999/2000			Number of Employees
		million FF	million ECU	growth 98/99 (%)	
1	Danone Group	87 196	13 293	2.8	75 965
2	Eridania Beghin Say	59 102	9 010	-8.9	23 044
3	LVHM	56 065	8 547	23.2	41 244
4	Pernod Ricard	23 551	3 590	14.4	13 855
5	Altadis	22 939	3 497	18.6	12 874
6	Bongrain	22 684	3 458	83.6	13 145
7	**Groupe Soufflet**	**16 000**	**2 439**	**-5.9**	**2 700**
8	Nestle France	13 499	2 058	-9.6	5 294
9	Cie Laitiere Europeenne	11 539	1 759	-4.7	3 445
10	Cana	10 621	1 619	2	5 369

Source: Soufflet Group web page and originally from 'Le nouvel economiste', 10 November 2000, No.1163, http://www/nouveleco.com/docs/pdf_classement/2000

The collection of cereals turned into processing through the acquisition of malting plants in the 1950s, mills in France in the 1970s, and bakery facilities in the 1980s. After the mid-1980s, maize milling was added to the activities of the Group as well as rice and dried vegetables, besides supply activities in viticulture (see Figure 1).

Figure 1: The chronology of the lines of business of the Soufflet Group





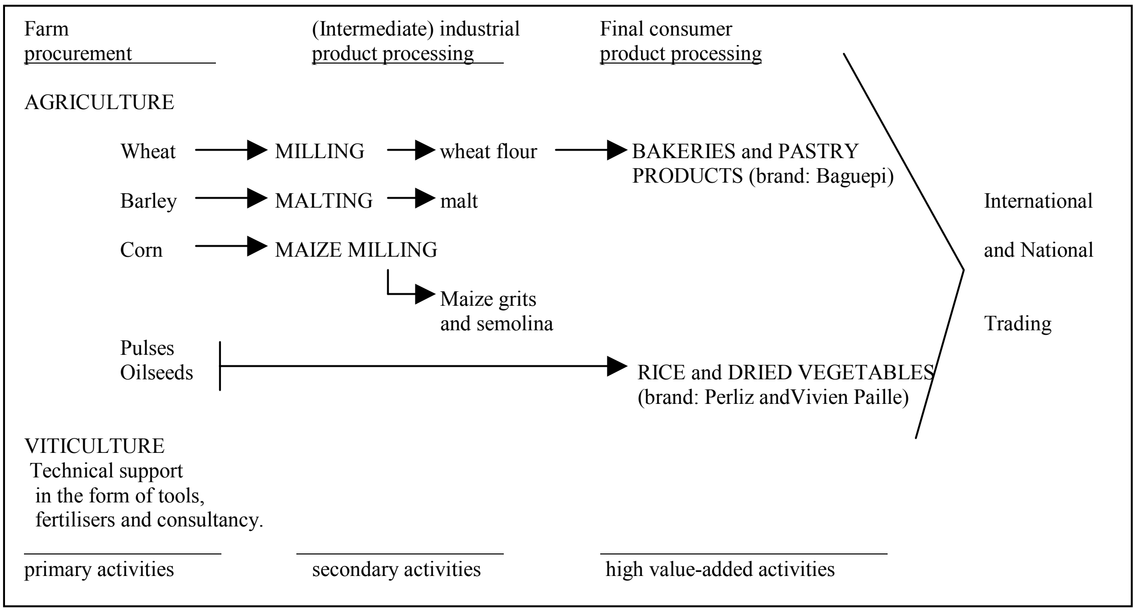
1989

Source: Soufflet leaflet published for the 100th Anniversary.

The development of the lines of businesses of the company continued until the early 1990s. In the late 1990s, the company commenced its expansion outside the European Union. In Jan 2001, Jean-Michel Soufflet, the son of Michel Soufflet, took over the company from his father and fostered the internationalisation of the Group. First the trading subsidiaries in the US and in Poland were founded. Then the first step towards expansion in the central and east Europe was taken in Russia. The acquisitions and leasing of factories in other CEECs have followed.

The main activities of the Group can be allocated into three kinds: primary activities, secondary activities and high value-added activities. The primary activities consist of collection of farm products (cereals), and supply of inputs to vine culture at all stages of the farming processes; whereas in the secondary activities and in the high value-added activities, the main concern is the processing of (mostly intermediate) industrial products and final consumer products respectively (see Figure 2).

Figure 2: Agri-food chain controlled by the Soufflet Group



Source: own schema

Primary activities

1. Agriculture

Soufflet Agriculture is the main subsidiary that operates directly from the farms and cooperates with Soufflet Négoce for trading purposes. At the outset of the business, collecting agricultural products was aimed at trading them within France. This objective has transformed into other purposes with the development of the businesses within the Group. Agricultural products such as wheat, barley and corn are not only traded nationally and internationally but also used as throughput in the processing plants of Soufflet in France. As will be discussed below, the policy of the Soufflet Group is to supply their processing plants locally. This emanates from the specialisation of the Group in agricultural products as the core business.

Soufflet has eight subsidiaries operating in the agriculture division and 136 silos in France, the UK, and the Netherlands, whose storage capacity is 1,380,000 tonnes. In 2000, they collected 2.5 million tonnes of cereals in France, including 1.3 million tonnes of wheat, 600,000 tonnes of barley and 260,000 tonnes of corn, while 0.8 million tonnes of wheat were collected in the UK in 2000.

Soufflet Agriculture and its subsidiaries are responsible for the distribution of seeds, fertilisers and plant protection products to the farmers in order to guarantee the quality and quantity of the cereals. This leads Soufflet to work in close cooperation with research institutes in France. It has its own research laboratories for its line of businesses, which develop their know-how by improving their process technologies.

2. Viticulture

After being specialised in the agricultural base of the agri-food chain, the Group diversified their business to viticulture in France in the late 1980s. Today four subsidiaries represent the vines division. The activities are confined to technical support and advice to the vine growers in France, and the objective is to supply tools, fertilisers and phytosanitary products as well as technical advice, and through its services to improve farming in the vineyards from the pruning of the grapes to harvesting. The Soufflet Group also undertakes research and development activities in viticulture. Soufflet Group has 21 shops to offer products for vitivulture and the vine industry under Soufflet Vigne name (Soufflet Group 2000).

Secondary activities

The processing of certain cereals that are collected from the farmers has turned into a specialty area of Soufflet in the world's agri-food chain. The products they obtain from the processing serve as intermediate industrial inputs for the industries with consumption goods.

1. Malting

Soufflet entered malting activity in 1953 through the acquisition of Grande Maltrie in Nogent sur Seine. This was followed by a greenfield investment in the early 1970s. Nordon, a specialised French company, built the factory. Today Soufflet owns 16(+1) maltings of which 9 are in France and 7(+1) are in Central and Eastern Europe, which have been either built, acquired or leased in the late 1990s. In 2000, 850,000 tonnes of malt were produced in France and 550,000 tonnes of malt in Central and Eastern Europe. Soufflet had 10% of the world's malt trade, as of 2000. With the acquisition of new maltings in the Czech Republic, Soufflet foresees itself gradually levelling up to first place in the world ranking.

Table 2: Soufflet in the world malting business

RANK	Name of the company	Tonnes of malt production	Nationality/ownership
1	Cargill	1 310 000	US Multinational - Private
2	Conagra/Tiger	1 302 000	US/South Africa Multinational - Public
3	**Groupe Soufflet**	**1 050 000**	**French -Private**
4	Malteurop	843 000	French - Cooperative
5	Inter-Malting Co.	845 000	ADM (US) - Lesaffre (French)
6	Greencore	649 000	Irish - Public

(Last update: 22/08/2001)
Source: Soufflet web page (http://www.soufflet.com/R02/websoufflet)

Malt is obtained as a result of processing malting barley, which needs special care to grow when compared to feed barley. Moreover, the quality of the malt also depends on the quality of the malting barley. Despite its use in other industries such as bakeries, malt comes into its full expression in the beer industry. For this reason, malt production is characterised as a local business more than a global one.
Malt producers work in close partnership with the breweries in their region.

2. Milling

The first mill was bought in 1978 in France and has been expanded to eleven subsidiaries with 14 mills. In 2000, 2 million tonnes of wheat were ground in 14 mills in France, Belgium and Poland. The activities of the milling division of Soufflet account for 20% of the world's flour trade. Soufflet expanded milling activities to bakeries in the 1990s through new acquisitions.

Table 3: Soufflet in the milling business

Rank	Name of the company	Turnover 96	Turnover 97	Turnover 98	Turnover 99	Brand-name
1	**Soufflet**	**3 430 000**	**3 351 600**	**3 200 000**	**3 000 000**	**Baguepi**
2	Grands Moulins de Paris	1 777 470	2 369 823	2 300 000		Campaillou, Moulbie
3	Grands Moulins de Strasbourg	840 905	912 124	964 922		
4	Euromill	825 000	911 605	829 160		Francine, Banette

(Date: 31/12/2000)
Source: Soufflet web page (http://www.soufflet.com/R02/websoufflet)

3. Maize milling

Soufflet opened its one and only maize milling plant in Costimex due to the fact that Costimes is the quality maize producing region. This plant also has the distinction of being the first maize milling in France. Its products are maize grint, maize flour and semolina. 210,000 tonnes of corn are crushed by this plant per year. It is claimed that it works in synergy with the maltings but the extent of this synergy is unknown.

High value-added activities

1. Bakeries and Pastry Products

The creation of industrial activities in baking within the Group dates back to 1983. However, the extensive engagement in bakery and pastry production was realised after the acquisition of a bakery factory from Casino Group in Saint Paul en Jarez in 1992, and taking control of the Pantin Group in 1994. The Soufflet Group divested from bakeries and pastry in March 2000.

Until it divested, for a while, Soufflet added value to wheat through engaging in craft bakeries through three subsidiaries. The acquired bakery plants produced unbaked and prebaked bread. The five factories they owned for this purpose function with fully automatic equipment which produce 20,000 prebaked baguettes and 80,000 pastries per hour. The production capacity was 240 tonnes of bread and pastries per day. The extension to consumer products has been achieved through the brandname 'Baguepi'. The targeted customers consisted of mass marketing, outside catering and the export market. As the brand name Baguepi serves as a brand name for flour marketing in the craft bakeries, Soufflet keeps this brand despite the divesture from bakery production.

2. Rice and Dried Vegetables

Soufflet decided to commercialise the cereals it gathers and trades within the EU in the late 1980s. In 1983, it acquired four machining and packaging factories for rice and dried vegetables. Three of these factories were closed and a new factory was built in Valenciennes. Thus, it has only one subsidiary, Soufflet Alimetaire, that deals with processing and packaging of rice, dried pulses and cooking aids for final consumer use under the brandname 'Vivien Paille'. The targeted customers are outside catering business and industries that use these products, as well as mass marketing.

International Trading

Having the home base of international trading activities in France, these activities are conducted via subsidiaries and agents in the UK, Spain, Italy, Holland, Russia, Ukraine, Singapore and Japan[4]. The trading is used to derive information for the businesses. In this way, trading activities create synergy between the areas of activity of the company.

Trading activities of Soufflet have been collected together in the operations of Soufflet Negoce, which is the international trading division of Soufflet in agricultural commodities; wheat, barley, corn, pulses and oilseeds. There is also trading of dairy products, mainly milk powder, operated by another subsidiary called Prolac. Soufflet manages its trading activities separately in several countries in different formats. It has subsidiaries in some of them, and has agents of Soufflet Negoce in some others. Soufflet Spain and Sococer (Italy) are subsidiaries to supply cereals and oilseeds to Spanish and Italian millers and animal feed compounders from both European and third-country origins, whereas Soufflet Ukraine and Soufflet US, which has been divested in 2000, behave and behaved as commercial operators in the Ukrainian grains and milk products markets and American wheat and feed grains markets to coordinate the exports from the Ukraine and the US respectively on behalf of Soufflet Negoce. On the other hand, the Group has a representative office in the Far East (in Singapore) which is in charge of developing the business in the milling, trading, milk powder trading and agricultural international consultancy in the region, including China, Indonesia, India, Vietnam and Burma. Being a member of the European Industrial Buyers, Soufflet has downstream relations with starch manufacturers, feed compounders, maize processors, and distillers as a supplier.

Soufflet first expanded its trade activities to European countries with the development of an EU identity / notion through establishing Soufflet Negoce and its affiliates in European countries. These affiliates have been extended to several of the countries mentioned above gradually, the UK being one of the first in 1974 with the intention to give service to flour millers in the net grain importer country. The conditions have altered with the radical change of the UK from being a net grain importer to being a net grain exporter; hence Soufflet UK has been transformed into an entity which sources grain directly from the British farmers, just like Soufflet Agriculture in France.

Soufflet Negoce is thus the other end of the chain that starts in the farm under the activities of Soufflet Agriculture. Soufflet Negoce has the role of controlling logistics in its trading operations especially through its port elevators and transportation facilities, which are operated through five dockside silos and a fleet of trains in the UK, the Netherlands and France.

Growth of the Soufflet Group

In terms of the growth of business lines, Soufflet has a policy of concentrated growth in the agri-food business. The growth policy of Soufflet Group relies on vertical related diversification of lines of businesses in France (by 'vertical' we mean from upstream to downstream of the main business

[4] The US trading office was created in 1997 and was closed in 2000. At the moment, an American trading company is in charge of the trading activities of Soufflet Group in the US.

activity, by 'related' we mean activities that originate from the trading activities of cereals, and by 'diversification' we mean the primary, secondary and high value-added activities (see Figure 2)). The criteria Soufflet has applied to all of its business lines are the relatedness of the business with the core business of cereal collection and the proximity to the raw material. Since its entry into the CEECs, Soufflet has mainly concentrated on the malt industry though with an incremental process of related diversification into other business lines of the Group, such as milling in Poland. Thus the Polish subsidiary continues its growth exactly along the same route as the French parent company, specialising in agricultural procurement, malting and milling. They have initiated this kind of growth in Poland, as it is the most suitable environment. Since the Soufflet Group has a highly customer-oriented growth policy; Soufflet aims to develop malting barley production in the CEECs in order to improve the quality of the malt offered to its customers. Thus, it aims to sustain its product reputation in the CEE.

In terms of geographical growth, the Group has chosen to grow in central and east Europe. These countries are barley producers[5]. This is strongly associated with the local supply policy of the Group, which does not apply only to central and east Europe but also to the business activities in France. To exemplify, maize milling is established in Costimex because quality maize is grown there. As one of the results of this local supply policy, it receives financial support from the EBRD in promoting its investments in maltings, which has indirect consequences for the improvement of local conditions in malting barley production in these countries through the interaction of Soufflet subsidiaries with the farmers (see discussion below). Another reason to choose central and east Europe is based on the market-seeking strategy of multinational companies, as it is the same for Soufflet as observed in its operations in the CEECs.

In trading activities, the Soufflet Group has taken part in world trade through the agents and subsidiaries it has in the main world trade centres. In processing activities, priority has been given to the EU countries. Expansion was considered in the 1990s in CEECs due to their geographical proximity and the availability of the raw material, i.e. grain. There were two reasons why Soufflet decided to expand into central and east Europe after 1992 but not before. The first is the very cautious attitude of Soufflet towards CEECs, and ensuring that it was taking the right step in order not to fail or suffer a setback. The second reason is the appropriateness of the timing for Soufflet to expand as a Group, which had matured enough and was ready to expand its production facilities abroad[6]. It took time to invest from then until 1998.

The Soufflet Group pursues an explicit expansion and growth policy in the CEECs, whereas in France it continues to grow despite undergoing cutbacks in some of the facilities or activities of the Group. Despite the efficient production of milling activity (see Table 2), a structural crisis in the exports of the milling division has lasted for four years. The decrease in the exports of flour of the Group amounts to 48% since 1998, against which the Group has carried out a reorganisation within the milling division by turning some of the mills into distribution units in their region[7] or decreasing some of their production capacity to a certain degree[8]. Another solution to the reduction in the export volumes developed by the Group is to give the main emphasis to the development of the European market while reducing its dependence on the flour export markets. At the same time, another milling affiliate within the Group, Ceres, has acquired the Doisy mill at Denain in the north of France, with 130 tonnes of production capacity per day and with a recent but well established client base in the craft baking sector. This acquisition is an indication of the intention of the Group to restore its position in the craft bakery industry.

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[5] Although the quality of the barley produced in these countries is questionable.

[6] Just like the evolution of the British retailer Tesco (Yoruk 2001).

[7] The Pantin mill is an example of halting the production and keeping the mill as a base for flour distribution to the craft bakers of the Parisian region (Soufflet Group 2000).

[8] The Corbeil mill is an example of this precaution, where production capacity has decreased by 25% and a new milling process will be established for it (Soufflet Group 2000).

Table 4: Statistics of the main activities of Soufflet Group, 1st July 1999- 30th June 2000

Activity	Turnover (mFF)	Number of employees	Number of plants
Agriculture	3400	547	-
Viticulture	350	145	-
Milling	3300	817	12
Malting	1600	505	16 (+1)*
Maize milling	310	58	1
Rice and dried vegetables	682	166	1
International Trade	9100	159	10**

* new acquisition in the Czech Republic in 2001
**Trade offices in the EU and in the world
Source: Statistics 2000 leaflet from Soufflet

4. Central and East European Investments

After the transformation in the East European communist bloc, Soufflet started to consider expanding its business in these countries. There were several reasons that made Central and Eastern Europe attractive to Soufflet in the first place. As for most of the European multinationals, the first and foremost reason is the proximity to the home country of the Group and to mainland Europe compared to other continents. Besides being an emerging market, these countries have huge potential primarily in the malt industry, due not only to their heritage of breweries (on the demand side) but also to their suitable climate for barley production (on the supply side). However, both the barley production and the malt industry are in need of improvement. Michel Soufflet, the President of the Soufflet Group, pointed out this fact while he was explaining the underlying reasons of the Group's deliberate choice of expansion to Central and Eastern Europe: "Our development strategy is aimed at countries in central and eastern Europe where the malting industry needs to be modernised and where the potential for production of brewers' barley is large but insufficiently exploited to meet local demand" (EBRD Press 1998). The previously existing potential of malting barley production turned into production of other grains like feed barley or wheat with the transformation at the beginning of the 1990s, when the guarantees to farmers to sell their products disappeared[9].

In line with this purpose, Soufflet is endorsed by EBRD in financing its investments in central and eastern Europe with a multi-project facility signed in July 1998. Under this project, EBRD proposed providing $50m in total for several individual projects that Soufflet would undertake in the CEECs. The amount would be allocated in differentiated amounts from $10m to $20m for each investment in the form of unsecured debt, preferred equity financing to Soufflet, or common equity investments in project companies (Groupe Soufflet Regional 1997). Under this scheme, Soufflet has envisaged four to seven projects to be completed by 2002, amounting to $150m (132m euros), with a maximum of 33% to be covered by EBRD (Groupe Soufflet 1998).

This agreement with the EBRD has provided safety to Soufflet while taking decisions in its expansion policy in the CEECs. The direct support of EBRD to Soufflet so as to further develop its sales and to create local procurement for its production has indirect influence on East European farming through interactive relationships of Soufflet agronomists with the East European farmers in raw material supply[10].

[9] Interview with Soufflet Malt Romania and Poland in 2001.
[10] Interview with Soufflet Malt Romania and Poland in 2001.

The intention to penetrate central and eastern Europe turned into reality in 1998 with the offer from South African Breweries (SAB), one of the world's leading breweries. Soufflet had been searching for a suitable area for greenfield investment since 1992 when South African Breweries, which has huge investments in the CEECs, looked for a partner to hand over the maltings attached to the breweries it had acquired in four CEECs: Poland, Hungary, Slovakia and Romania[11]. Malt production is not the core business of SAB. Soufflet, on the other hand, is renowned for its know-how in brewing barley and malt production. It was a major opportunity for Soufflet to enter these countries.

In terms of the choice of entry, the decisions Soufflet has taken in response to the offer by SAB have clearly drawn a distinction between the situations of the maltings in these countries. Among all of them, only the malting in Poland has been acquired, while the rest in Hungary, Slovakia and Romania are leased. The underlying reasons for the leasing decision are the small size and the complete obsolescence of the factories. The inseparable situation of the maltings from the breweries in east Europe also helped bring about this decision. However, Poland was an exception in this sense, as here the brewery and the malting are physically separate, also the plant was big and well maintained. In terms of business, since brewing is an important sector in Poland, malt is an important raw material with potential to grow. As a result, Polish malting offered a ready-to-work facility to Soufflet with a prospect to expand business.

In the CEECs, many of the facilities in the beer and malt industries are thus inseparable, creating a giant production complex. They were built not only side by side but even intertwined, which made things difficult during privatisation processes for international brewery and malt producers. At that time and in these countries, SAB preferred to leave the malt to its specialists and work together, rather than putting separate effort into malt production for its operational needs. With this idea in mind, SAB has made no enhancement at all to the malt factories, while investing in and improving the technological level of the breweries. For instance, in Romania, after the initial investment in the late 1960s under Ceaucescu, nothing had been changed in the two factories SAB had acquired, and as maltings are beyond its concern, the factories were handed over to Soufflet as they were. However, the malting in Poland is in a better condition. It has the same technology as the malting in Nogent (France) which is in use today. Yet Soufflet has made investments to expand the facility, which have almost been completed. So, except in Russia and the Czech Republic, Soufflet works with SAB as the main customer[12].

Soufflet implements an amalgamation of multi-domestic and global corporate strategies (Hill, Hwang, and Kim 1990). The former strategy relies on the differences between national markets that lead to having subsidiaries with their own marketing and manufacturing facilities and competitive strategies. The latter strategy is related to the configuration of the value chain of the firm in a way to maximise value-added at every stage of the value chain (Hout et al. 1982, cited in (Hill, Hwang, and Kim 1990). These strategies lead Soufflet to guarantee the quality of its products to customers. Soufflet gives priority to offering products for global markets according to the best price-quality ratio.

In the CEECs, Soufflet has to preserve its reputation as it works with international breweries. The presence of Soufflet has brought confidence to the international brewers that are operating in these countries of getting guaranteed quality malt for their breweries.

In 2000, the total production of malt by the Soufflet Group was 807,000 tonnes, and 1 million tonnes are targeted for 2001. 130,000 tonnes of this total amount in 2000 has been produced in the CEEC subsidiaries: 78,000 tonnes in Poland, 21,000 in Romania, 20,000 in Slovakia and 11,000 in Hungary.

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[11] SAB has acquired a brewery in the Czech Republic very recently, again together with the malting facility. Before this acquisition, Soufflet had taken over an independent malting plant in the Czech Republic. Though this does not constitute a reason for SAB not to offer the malting operations to Soufflet, this time SAB has chosen to deal with the malting operations itself.

[12] Contrastingly because South African Breweries' Plzensky Prazdroj in Czech Republic owns its own malting operated by SAB itself.

Finally, the malting capacities of Soufflet according to the worldwide study of John Alsip, President of Rahr Malting Co. Minneapolis[13], published on 4th March 2000 is (in thousands of tonnes):

	Real Production capacity	Planned or under construction
Russia	106	-
Poland	73	40
Slovakia	27	-
Hungary	22	-
Romania	22	40
Total Soufflet *(inc. France)*	1005	

According to the same source, the ranking among the malting companies in the world is:

	Year of foundation	Production capacity in thousand of tonnes
1. Cargill Inc.	1978	1525
2. Conagra / Tiger Oats Malt	1956	1436
3. Groupe Soufflet	1953	1005
4. Groupe Malteurop	1984	895
5. Lesaffre-ADM	1998	825

a) Greenfield Investment

The first EBRD investment through the multi-facility project consisted of the construction of a malting facility in St.Petersburg in co-operation with Baltika Brewery of Russia, whose construction was completed in 1999 (The St.Petersburg Times 20 April 1999). Soufflet and Baltika Brewery have established a 70:30 joint venture to build up a brand new malting factory, to be the first of its kind in Russia and the largest in Europe. The total project costs $50m, of which $16m (14m euros) is covered by the EBRD credit line to Soufflet. The production capacity of the new factory is 105,000 tonnes of malt per year.

The Baltika Brewery is a relatively new brewery in Russia, which was built in the early 1980s with Czech equipment. It had difficulties due to the anti-alcohol laws of Mikhail Gorbachev, and the factory was left idle for nearly a decade. The plant opened to a nascent market in 1991, and after its privatisation in 1993 it introduced its own brand, gradually expanding to offer eight varieties, from lager to porter (Williamson 1998), and hence has grown very fast. The estimated malt need of Baltika just for its own production is 150,000 tonnes per year. The Baltika Brewery has been importing malt. The establishment of the new malt factory supplants its imports to a great extent while hedging against raising grain prices, and cuts the transportation and production costs of Baltika Brewery as well as problems at the customs (Russia Journal 2000).

b) Acquisitions

SOUFFLET IN POLAND

The Soufflet Group owns three companies in Poland: Soufflet Slodownia Pollska SARL (malting), Soufflet Polska (agricultural activities), and the newly acquired Mlyny Leszno (milling) in March 2001, with a silo with storage capacity of 12,400 tonnes in Koscian (Groupe Soufflet 2001).

[13] The source is obtained from Soufflet Malt Poland.

Except for the directors of the companies who are French, all the employees working in the subsidiaries are native people.

Soufflet Słodownia Polska in Poznan is the other malting that has benefited from the EBRD multi-facility project to finance its acquisition, modernisation and expansion. EBRD has provided 13.7m euros (DM 17.9m) in debt financing to Soufflet to be paid back over eight years (Poland A.M. 1998). The factory was acquired from SAB in 1998 and thus is attached to the SAB-owned Lech Browary Wielkopolskie. SAB operated the malting for a few years. At that time, many breweries were closing down their maltings due to the deficiency of quality barley in Poland and starting to import[14]. SAB was importing as well, as its malting could not produce the desired amount of malt. But it did not close the malting down, because compared to the other maltings, Poznan malting was big and productive provided that maintenance was carried out[15]. SAB continued to undertake preventive maintenance and kept producing in order to avoid selling the malting to its competitors.

As mentioned earlier, the malting in Poland is one of the maltings among the SAB offers which is in good condition. It was built in the early 1980s together with the brewery, and started production in 1984. It does not require modernisation but new investments in process technology so as to increase production capacity, as it still operates at under its full capacity. It also needs arrangements in the use of utilities which were shared with the SAB brewery. These arrangements are in process for the total separation of the utilities of the malting from the brewery in order to make the malting independent[16], i.e. not engaged in brewing and operating only in malt production.

The new investments have targeted an increase in the malting capacity. So these investments cover the construction of a new silo and the start-up of a new kiln, whose major roles are to separate germinating from kilning. In addition, three sleeping tanks, eight germinating boxes and one double kiln have been installed in the factory. Thus the investments optimise the production process by enabling a shortening in the production time[17]. These investments have led to an increase in malt production in the Polish malting to the level of demand in the Polish malt market, as well as to meet the demands of its main customer, Lech Brewery.

When Soufflet Slodownia took over the malting it had 64 employees and it has kept most of them. Today the total number of employees is 59 in malting. The malting in Poland has been certified with ISO 9002:2000 very recently in 2001 and has become the first among the east European affiliates to get ISO certification (Soufflet Group Web page 2000).

The strategic development policy of SAB has encouraged the growth strategy of Soufflet in Poland. SAB has focused on divesting from undeveloped product markets and non-core beer-making activities as well as soft drink production in central and east Europe. Thus it has focused on beer production. Having SAB as its main customer in central and eastern Europe, Soufflet has the potential for expanding its sales. Its market share is around 20-21%. Today, Soufflet Slodownia produces at least 30% of the malt production in Poland. The consolidation in the Polish beer industry; like the merger between Zywiec and Elbrewery, which creates a bigger customer base for Soufflet Polska, has also endorsed this development (Kirkland 1998).

Soufflet Polska was founded as a trading subsidiary and started its operations in developing its agricultural base at the same time as the malting in June 1998. It is engaged in operations from cereal procurement (wheat and barley) to the processing activities in malt production and in milling. It

[14] An example is Okocim Brewery, whose main shareholder is Carlsberg.
[15] During the communist period, to effect maintenance of the plant, they had to stop the production and it took 2 months to complete the revision. This represented a huge loss (interview with Soufflet Poland).
[16] This is one of the disadvantages resulting from the inseparable structure of brewery and malting in Poland, i.e. the utilities of the brewery and malting are designed together.
[17] Interview with Soufflet Malt Poland in 2001.

provides the preservation of cereals after collecting them in well-equipped silos, as farmers do not have such facilities[18]. The quality of the cereals it collects is then its main concern.
Soufflet Polska consists of 10 employees, including its French director and agronomists. There is a team of six people who are responsible for giving advice to the farmers, finding new farmers, contracting farmers, purchasing barley, and procuring and selling seeds and pesticides to farmers.

SOUFFLET MALT CZECH REPUBLIC

Due to its favourable climate for malting barley, the Czech Republic produces a high volume of malt of which almost half is exported[19]. Moravska Sladovna Kromeriz in Kromeriz, acquired by Soufflet Malting Czech Republic in 2000, is in the fertile area called the 'Hana triangle' for malting barley production in the Czech Republic. The climatic conditions of the Czech Republic have strongly endorsed the local supply strategy of the Group.

The acquisition in the Czech Republic is the third investment project that has received financial support from the multi-facility project with the EBRD, as 8m euros in debt financing and 2m euros in equity financing (Groupe Soufflet Regional 1997). Soufflet has invested in the Czech Republic twice. At the end of 2000, it acquired an independent malting from a Czech company. The new malting in Kromeriz was purchased at the beginning of 2001. The second acquisition is considered as a reinforcement of the Group in the Czech Republic (Soufflet Group 2000). The malting in Kromeriz is a relatively new malting started in 1997, with a similar technology to the tower maltings of Soufflet in France (Polisy or Strasbourg maltings) (Soufflet Group Web-page 2000). Soufflet Malt Czech Republic paid Kc 850m to the malting (Czech A.M. 2001). Its produce is going to be exported to other CEECs where Soufflet affiliates are in need of support due to shortages of barley, either as a result of climatic conditions or because of local procurement efforts that are still in progress (Soufflet Group Web-page 2000).

In contrast to Poland, in the Czech Republic after the transition the formerly state-owned breweries have separated into small units that have ended up with price wars in the market as well as not attracting the big international breweries during privatisation processes (Anderson 1999). That is, the brewery industry is very fragmented. Nevertheless SAB has penetrated the Czech Republic via the acquisition of Plzensky Prazdroj, which owns its own malting. As opposed to its operations in other CEECs, SAB has kept the malting in the Czech Republic and operates it itself. Even though they have considered selling it, says the head of marketing, Tony van Kralingen, they have given up the idea for the foreseeable future (Frink 2000). Their main short-term concern today is to provide malt for their own production, yet in 1999 they had an overproduction that they exported. In the long-term they aim to ensure the quantity and the price level of malt against harmonisation of government regulations with the EU. Therefore, SAB exceptionally does not work with Soufflet in the Czech Republic.

The existence of independent maltings (i.e. owning independent maltings from the brewery complexes) in the Czech malt industry has allowed Soufflet to enter the Czech market on a standalone basis (i.e. without necessity of cooperation with an international brewery or with separate producers from the brewery complexes in these countries). After the acquisition of two maltings, recently

[18] The barley, for instance, is very delicate and should be kept alive in the first weeks, which can only be guaranteed by the conditions in the silo.
[19] In May 2000, malt exports of the Czech Republic (160,000 tonnes) reached 1999's total malt exports (174,000 tonnes), which was 41.6% of the total malt production. Tchecomalt, a group functioning in the Czech malt industry independent from any brewery complex, accounted for 60% of the country's malt production and 80% of exports in 1999 (Frink 2000).

Soufflet Czech Republic has bid for the shares of Tchecomalt[20] alongside the other domestic companies[21] (Ceskenoviny 18 September 2001).

c) Leasing

The starting point of the international expansion of the Soufflet Group is to be present in the CEECs with production units. The 10-year strategy intends presence in all East European countries gradually, with their own modern maltings. In pursuit of this strategy, among the SAB offers, Soufflet acquired the maltings in Poland (with French technology) and in the Czech Republic, otherwise it has leased. For instance, two Romanian maltings that are leased have 1968 and 1978 Czech technology[22]. The unsatisfactory technological level and small size of the maltings in these countries led Soufflet to lease them in the first place. Soufflet aims to establish its presence in the local market through the local supply, rather than import, of malting barley. So, when the time is ripe, a greenfield investment is going to be made, similar to the greenfield investment in Russia. Therefore, Romanian, Slovakian and Hungarian maltings are leased from SAB.

Table 5: Comparison of Polish and Romanian maltings, 2001[23]

	Poland	Romania	Slovakia
Production capacity of malt in 1998 (tonnes)	64,000	14,000	
Production capacity of malt in 2000 (tonnes)	73,000	21,000	20,000
Number of farmers contracted	300	120-160	
Barley used per year (tonnes)	91,000	22,000	
Total barley production of the contracted farmers, 1999 (tonnes)	50,000	12,000	
Total barley production of the contracted farmers, 2000 (tonnes)	30,000	26,000	
Total barley production of the contracted farmers, 2001 (tonnes) expected	100,000	50,000	

Source: Interviews with Soufflet Poland and Romania in April and May 2001, by the author.

There is a partitioning of tasks among these maltings according to the position of the malt market in these countries. Due to saturation in the malt industries of Slovakia and Hungary, maltings in those countries offset the deficiency of either malting barley in order to increase the under-utilised production capacity of Romanian maltings, or malt in Polish malting in order to meet the insufficient domestic malt production through exports when necessary. However, there is still potential to be activated in the Romanian malt market. Unlike the saturated malt market in Slovakia, Romania offers a nascent market with its high population. For this reason, the Romanian malting needs to import barley from sister maltings as well as from France when there is insufficient barley production within the country due to climatic conditions. Moreover, the Romanian maltings increased their production from 14,000 tonnes in 1998 to 21,000 tonnes in 2000, which corresponds to a 50% growth rate in production capacity (see Table 3), through imports of malting barley from the sister maltings (20% of the total malting barley used in 2000).

SOUFFLET MALT ROMANIA

As mentioned above, Soufflet Romania consists of two factories, one in Pitesti and the other in Buzau, leased from SAB. SAB has three breweries in Romania, of which two have maltings attached. Hence,

[20] The Tchecomalt Group emerged in the second half of the 1990s and comprised 17 firms in the malting industry, trade in agriculture commodities, and seed cultivation and production. The bankruptcy of Tchecomalt at the end of 2000 has been hastened by the Czech government through the restrictions placed on exports and the incentives for imports for the EU countries whose customs have been nullified since July 2000 and restricted to 45,250 tonnes of malt, whereas imports from the countries outside the EU confront a 21.5% tariff and are restricted to 4,750 tonnes of malt (Frink 2000).

[21] Soufflet has won the tender of Obchodni Sladovny Prostejov, a flagship of Tchecomalt Group alongside the other domestic companies; Rolnicke druzstvo Bezno, Agropol Group and AGF Trading of the Agrofert group. CSOB, however, halted the tender for shares in the group's subsidiaries (Ceskenoviny 18 September 2001).

[22] Interview with Soufflet Malt Romania and Poland in 2001.

[23] A comparison of the organisational schemes of the Polish and Romanian affiliates can be found in the appendix.

Soufflet Romania sells 70% of its output exclusively to SAB, which produces the national brand Ursus[24] in Romania. Soufflet has kept all the employees in Romanian maltings, which is 80 Romanian people. The production managers have worked for that length of time in these factories and the agronomist has been employed one year after the arrival of Soufflet.

Soufflet Romania has gradually enhanced its production capacity and the situation of the malting barley producers, which has influenced its position in the Romanian malt market. When Soufflet first entered the Romanian market in September 1998 its market share was 3.2% with 3940 tonnes of malt production, of which 75-80% was shared among 11 breweries which own maltings for their own production (Euro Mediterraanee Consulting & Trading SRL 1999). Soufflet is the only independent malt producer in Romania, i.e. not engaged in brewing and focused only on malt production.

In the following years, Soufflet has increased the amount of its production in the market that led it to be the leader in terms of market share. Still there is room to grow in the Romanian malt market. Around 120,000 tonnes of malt have been produced in Romania annually, of which 90% comes from multinational companies. The director of Soufflet Romania estimates that Braun Union[25] produces half of the total malt production in Romania each year only for its own use[26].

Soufflet Romania compensates for the deficiency in the production of malting barley by imports from France and sister companies in the CEE in order to meet the need of the brewery sector in Romania. They produce a standard malt called 'Pilsner malt'. The other more sophisticated malts, like Munich malt and black malt, are imported from the mother company upon the request of the customers, since the production of these specialised malt requires different technology than in Romania.

The Romanian maltings of Soufflet need improvements. Developing the best conditions for their production both in terms of raw material supply which is supplied locally and at the quality level required by Soufflet, and in terms of technology which leads to low production costs and high efficiency. In line with these requirements, Soufflet Romania puts great effort into supplying its barley needs 100% locally through cooperation with farmers, just as Soufflet Polska does in Poland[27]. Yet, in Romania, there is no separate agricultural division within the firm. Due to the nature of construction of a malting, the technology of a malting can be changed only by opening a new malting. This fact leaves Soufflet to consider opening a greenfield factory in Romania in the future, taking the macro- and micro-economic conditions that Romania could offer into account.

Assessment of Entry Mode Choice

As explained in the second section of the paper, the framework of Hill *et al.* (1990) arranges the variables in a linear way, with concrete extremes at the two edges (licensing at one edge and wholly-owned subsidiaries at the other). The Soufflet case has fallen close to the wholly owned subsidiary edge as a result of its choice of entry mode, and thus does not fully fit this framework. The most preferred combination of these aspects is a high degree of control, a low degree of resource commitment and a low degree of dissemination risk. This shows varieties in the operations of Soufflet in the CEECs.

On the one hand, just like other multinational companies, the extent of control is one of the main issues Soufflet considers during the decision taking process for the internationalisation of the firm. It is

[24] Ursus is the very well known national beer brand in Romania.
[25] Brau Union is the Austrian brewer, which is the top multinational malt producer in Romania.
[26] For this reason, Brau Union needed to prepare a survey of the malt industry in Romania in order to prove to the competition council that they do not possess monopoly power, despite the fact that they are the leading company in Romania for producing malt.
[27] As they get the crop once a year, Soufflet needs five to ten years for testing the soil and climatic conditions perfectly to be able to decide whether it is worth investing in a modern factory in Romania.

a *controller* of the use of resources and capabilities at parent and subsidiary level, and of local resources and capabilities (Dunning 1994) via the development of local networks. Soufflet has shown a range of different entry modes due to the structure of the malt industry as well as the differing privatisation processes in the CEECs, such as leasing, acquisition and greenfield investment (joint venture), which have brought a high degree of control to Soufflet (see Table 4). Leasing has particularly brought about the preferred combination of the variables that Hill et al. (1990) specify.

On the other hand, when the CEECs are considered, despite the proximity of these countries to France (the home country of Soufflet) and the established and developing beer industries in these countries, the uncertainty of the demand for malt in these countries in the first years of the transition might have shaped the entry mode decisions of Soufflet. This situation leads the company to internalise its intangible assets through organising and controlling the use of these assets of the company by the subsidiaries. However, the malt industry in central and east Europe is a promising one to develop, and Soufflet is one the first European malt companies that has penetrated the CEE, as one of the significant players of this industry in the world. Hence it is a *stimulator* of competitiveness in these countries (Dunning 1994). One major element in its decision on the entry mode is related to the technological/technical conditions and size of the factories.

Table 6: Soufflet's choice of entry mode to central and east Europe and its analysis with regard to variables used by (Hill, Hwang, and Kim 1990) and (Madhok 1997)

Countries penetrated	Mode of entry	Degree of control	Resource commitment	Dissemination risk	Development of resources and capabilities
Hungary	Leasing (function as wholly-owned subsidiary)	High	Low	Low	High
Romania	Leasing (function as wholly-owned subsidiary)	High	Low	Low	High
Slovakia	Leasing (function as wholly-owned subsidiary)	High	Low	Low	High
Czech Republic	100% acquisition (wholly-owned subsidiary)	High	High	Low	High
Poland	100% acquisition (wholly-owned subsidiary)	High	High	Low	High
Russia	Greenfield investment (joint venture 70:30)	High (70%)	High	Low	High

The analysis below of the local, national and global networks shows that there is no distinction between the central and east European subsidiaries according to their entry modes insofar as the strategic and organisational management culture of the Soufflet Group is concerned.

The success of subsidiaries in the development of these networks rests on the fact that the directors of foreign subsidiaries are all French, and have work experience in different divisions of Soufflet France, i.e. trained within the corporate culture of Soufflet. These young directors, except one of them, have been in CEECs before they started work at Soufflet France, so that they had already experience regarding these countries, which helped them to start in business one step ahead[28].

5. Local networks: emphasis on upstream relationships

Soufflet has determined its role as enhancing its upstream relationships and upgrading malting barley farming in CEECs so as to continue its robust and expanding presence in these countries. In this sense, it seeks to develop the (local) value chain of malt production to offer good quality malt to its customers. This monitoring does not take place in a hierarchical way, but rather through (supplier) networks. Thus, alongside internalisation within the Group, Soufflet is externalising its knowledge via

[28] The Polish directors speak Polish very fluently. The Romanian director learns Romanian as well.

the local channels it establishes with the domestic farmers in the host countries through its subsidiaries. Downstream links are based on simple customer relationships with national and international breweries.

The main characteristic of the malt industry is to be local on the way to being global. The executive of Tchecomalt[29] says that the grain business for the raw material is global but it is always better to be close to the customers in the local market (Frink 2000). The main strategy in the malting business is to satisfy customers via the provision of quality malt, as is expected from Soufflet. M. Soufflet has imposed the philosophy of the company as making profits but never considering the partners only as customers or suppliers, but as those with whom they would be able to develop long-term relationships[30]. Because the business strategy of the company in central and east Europe is based on 'to supply locally, to sell locally', this directs the company to cooperate with the farmers to obtain local supplies at the desired quality and quantity, and with the seed suppliers to find the best possible seed variety that is compatible with the specificities of these countries' climates. Functioning in the agribusiness sector, Soufflet comprehends more knowledge spillover possibilities in terms of agricultural production. In a sense, it transfers resources and capabilities to the local environment as well as distributing the benefits of the value chain evenly in the market.

This kind of development of relationships with suppliers indicates strong motivation for a market-seeking strategy by Soufflet subsidiaries. As the quotation from Penrose (1995) mentions at the beginning of the paper, its reputation and the reputation of its products open the spectrum for economies of expansion. From the outset of its penetration into these host countries, the plants have aimed at increasing production capacity to meet the demand of its domestic customers. Hence, seeking increases in efficiency, both in raw material supplies and in malt production, is what motivates up-and-coming directors in the foreign subsidiaries of the Soufflet Group.

5.1. Networks with Farmers

With the entry of Soufflet to central and east Europe, all of its affiliates have been confronted with a collapsing agricultural situation in terms of malting barley. These countries were producing malting barley for their own consumption, and only the Czech Republic was exporting malting barley before 1990, after which malting barley production was affected by the transition. Then came the privatisation of breweries and maltings, and the arrival of international breweries. They ran the malting plants for a few years, having difficulty in the internal market to find good quality malting barley in order to produce quality malt. They ended up by importing malt to the detriment of the supply chain of the breweries within these countries. The domestic breweries mainly owned their maltings in their brewery complexes and imported malting barley from abroad to be able to produce malt they needed in their production. They do not put any effort into improving the malting barley cultivation within their countries.

The main and prior interest of the Soufflet Group in Poland (compared to other east European countries) has been reinforced by the strong demand for malt with the fast penetration of international breweries into the CEECs. Three years ago, when SAB/Lech was operating the malting, they were importing malt from Germany, France and the Ukraine. The malt need of the brewery was far below the malt production in Poland. However, Polish barley production was insufficient to support malt production, because farmers had shifted to the production of other cereals like feed barley and wheat in lieu of malting barley.

The bottleneck in Romanian malt production is the unhealthy agricultural environment in general, and for malting barley cultivation in particular. According to the director of Soufflet Romania, agriculture in Romania suffers due to lack of subsidies from the governments since the transition, that turned a

[29] Once successful and lucrative, but now bankrupted independent Czech malting, see Footnote 17.
[30] Interview with Soufflet Malt Romania in 2001.

self-sufficient country into an agriculturally uncompetitive country. According to him, subsidies would restore cereal production in Romania over time, and in the long run Romanian agriculture might easily catch up with West Europe when accompanied by an entire change of habits and the reorganisation of agriculture in Romania. The consideration of agriculture by the new government, elected in January 2001, as one of the top priorities, is a positive development for the prospects of Romanian agriculture. Moreover, as opposed to Greece, there is no tradition of malting barley in Romania. For this reason, at the beginning the director of Soufflet Romania was not so optimistic with regard to obtaining the best quality barley in Romania. The incremental development of the barley suppliers and their progress in quality barley production motivated him to establish the local supplier base and to enhance their business further in the medium to long term, despite the fact that the malt processed from barley from France still gives better results than Romanian barley.

The unique transfer of internal knowledge in Soufflet is effected to some extent to the farmers in these countries, again under the control of the agronomists of the company, as it involves the mutual interests of the partners. Therefore, the development of the resources and capabilities of the subsidiaries in these countries has to be high for the future strategies and investments of the company. The factories with most modern technology that have been built or are planned would make a huge contribution to the malt industries in these countries in terms of introduction of technologies, as well as increasing the competition among the malt producers, while making Soufflet the main industrial maltster in these countries.

Soufflet believes that part of their knowledge and experience can be transferred to these countries[31]. The major difference between central and east Europe and France is the cereal procurement process. In France, the farmers have cooperatives and free market rules apply. Soufflet has no difficulty in raising its inputs from the free market. Whilst in these countries, the company should guarantee local procurement. As a result, since the penetration of Soufflet into these countries, farmers have required more attention for enhancement in malting barley production. Soufflet has attracted farmers through pre-financing them with phytosanitary methods and fertilisers so as to start producing malting barley for Soufflet, as has happened in Romania.

At the outset, the production started with imported barley from France[32]. However, the main strategy of Soufflet is first to develop local barley production within these countries. Due to the lack of awareness in malting barley cultivation, Soufflet puts its own efforts into educating the farmers free of charge so as to get the most benefit from its cooperation with those farmers[33]. In Poland, the agricultural division deals with the development of the procurement system. This was not an easy job to do unless they convinced the farmers that Soufflet would be a long-term reliable customer to them. For this reason, agronomists in the central and east European affiliates work in close cooperation with Soufflet Agriculture in France.

In this way, Soufflet plays a crucial role in the introduction of new production techniques to malting barley production in these countries. In Romania, the relationship with their farmers is basically built upon the training of farmers in order to convert the inefficient traditional farming into technologically efficient farming. Through the use of trial and error methods on the demonstration/experiment farms, the agronomists aim at demonstrating to the farmers that without burdening financial investments the yield can be manipulated and monitored to get better outcomes. In West Europe, modifications in agricultural process techniques they use bring about 7-8 tonnes of malting barley per hectare at fixed costs. In Romania, this amount declines to 3 tonnes per hectare, a figure that evidently needs to be improved.

[31] Interview with Soufflet Malt Poland in 2001.
[32] Whenever there is bad harvest, the affiliates in central and east Europe still compensate their production input either from each other or from France.
[33] Interview with Soufflet Malt Romania and Polska in 2001.

Know-how for malt production, rather than the machinery, is decisive for the quality of malt. What is needed is the correct match of the know-how with the varieties of malting barley. Soufflet has its own know-how, yet it needs to develop the variety of quality barley it requires in the local environment. It was a financial question for the farmers to start malting barley cultivation after 1990s, whereas it was a training and consultancy issue for Soufflet. They started with the introduction of new seed varieties and kept monitoring the production phases of the farmers, i.e. whether they use the seeds, pesticides, herbicides, fertilisers, etc. that Soufflet allocates, and whether they apply the new techniques Soufflet advocates, etc. Use of state-of-the-art agricultural machinery[34] is a responsibility of the farmers, as they are strongly encouraged by Soufflet. It is not to say that the farmers are ignorant, conversely they know what they need. However, they might not know how to use a particular machine they have[35], and Soufflet becomes the consultancy directed to them through its field advisers in Poland and agronomists in Romania.

To produce malt at the needed quantity and quality in the Polish market, Soufflet Polska has initiated the development of the agricultural base for barley production. When Soufflet Polska entered the market, it aimed to pursue the same strategy as Soufflet Agriculture in France: to produce more than required to meet the need for barley for its own malting. The objective is to supply the amount of barley that malting needs in total in Poland. This year the amount of barley they will buy will increase compared to last year, however it will still not meet the entire demand for Polish malting, which is 135,000 tonnes. Hence, Soufflet Slodownia still imports winter barley from other European countries via Soufflet Negoce.

Soufflet Polska emphasises producing quality barley seed to receive quality barley from the farmer. The new varieties of barley seed produce are sold to contracted farmers by the sales team in order to have more productive and higher yields with good quality barley. In touch with technical people in France, the team at Soufflet Polska distributes the seeds only to their contracted farmers in central and east Europe, so that they do not need to develop particular relationships with the foreign seed suppliers in Poland. In order to do this, first the European seed varieties are registered in Poland and then they contact the seed station in Gostyn (near Leszno), which reproduces the seeds. They buy seeds from local representative and multiply these seeds through this seed station, then pack them under the Soufflet brand and sell them to the farmers. Soufflet Polska is a big seed producer in this sense. It sells its own variety of seeds to farmers in order to guarantee that they use a pure variety of seed and in this way fights against the tradition of re-sowing from the harvest of the previous year, which decreases the genetic potential of the seed and generates mixed varieties. The Polish farmers have not only a propensity to deceive Soufflet by introducing this mixed variety as a Polish variety called 'wujik', but also display volatile behaviour where even a contract cannot guarantee their co-operation. Soufflet monitors the purity of the barley at the stage of buying to determine whether their seed is used. The farmers who comply with the advice of Soufflet gain in the long-term through establishing trust relationships.

The Polish agricultural division has proved successful in cooperation with farmers to whom Soufflet gives technical support. The number of farmers has slightly increased since 1998, as the aim is not to increase the number of farmers but the amount of the yield. Soufflet Polska works with big farms[36]. They have tried to work with small farms but for quality reasons they are forced to give them up[37]. Furthermore, potentially the big farms proliferate faster than the small ones. Basically, the main farmer base of Soufflet Polska has been constituted via the transfer of around 200 farmers from the heyday of Lech Brewery, with which the farmers had contracts. The target of Soufflet Polska is to increase the

[34] The director of Soufflet Slodownia told "A good sowing machine is suitable for harvesting 5000-6000 tonnes of crop with better quality instead of 3000 tonnes."
[35] Examples of this are the correct use of combine harvesters to harvest barley without killing the germs, and the application of spray chemicals to the field without wasting pesticides.
[36] Though not as big as in the Czech Republic (interview with the director of Soufflet Polska).
[37] The small farmers did not comply with the advice and tried mixing varieties of seeds, which harmed the purity of the seeds and thus the quality of the barley.

yield of the farmers, but not the number of farmers. In contrast to Soufflet Romania, it does not pre-finance the production of barley but provides seed in order to guarantee seed purity.

Both the Polish and the Romanian farmers are very resistant to new ways of farming and want to keep their traditions. For instance, they resist sowing seeds earlier. Yet if they had done so, the quality of barley would have been better. It is not easy to convince the farmers who are used to applying farming techniques, as they have believed. The method Soufflet Polska and the agronomists in Romania use show similarities and are much the same. The only way to convince the farmers is to use demonstration fields. The Polish field advisers prefer to call these fields 'demonstration fields' rather than 'experiment fields', since they do not conduct experiments or research in these fields but aim to demonstrate the impacts of new varieties and fertilisers to their farmers in order to convince them. In Romania, they call these fields experimental fields as they also conduct experiments. Agronomists sow stripes of different barley types with different technologies, fertilisers, and chemicals, to show farmers how to grow barley. They deliberately make errors in the experimental fields to show both the negative and positive results, and thus to discuss what should be done in which situation in order to increase the effectiveness of agriculture little by little.

In Poland, the field advisers are responsible for different geographical locations[38]. Two-thirds of them have been working in Soufflet Polska either since the beginning or from mid-1999, and the rest have been in Soufflet for six months. The French specialist who comes to Poland often has introduced their tasks while starting to work at Soufflet Polska. They receive training whenever they need in different subject areas in Poland, such as on pesticides and negotiations during the last year[39].

They assist the contracted farmers in sowing the seeds, which seeds, pesticides, etc. to use, how to do the harvesting, they warn them against a threat or solve their particular problems when the farmers come to them, etc. Depending on the need, on average they meet the farmers at least once a month. They provide technical information leaflets to the farmers on the issues a farmer should know and consider in cereal cultivation. They carry out field tests to make the results concrete to farmers and invite all of them to annual meetings so as to display the outcomes of right and wrong cultivation as well as let them exchange their experiences with one another.

In Romania, the experimental farms are located in three different parts of the country to understand which part of the country best suits their requirements for quality barley with high production rates by making agronomical tests of several varieties in different locations. The two agronomists test seeds applying different types of treatment, for instance the amount of chemicals and fertilisers or nitrogen supplied to the soil, and try to find out the ideal conditions for growing barley that alter due to differences in soil and climate as well as to early or late sowing. They also test the effects of sowing seeds from Romania and from France, which aims at optimising the barley production in Romanian conditions, since it is not possible to adapt techniques directly from France. Parameters should be tested, which places an extreme obligation to carry out research in Romanian conditions. The objective is to increase the quality of malting barley, together with having higher yields with fixed costs.

When Soufflet Romania came to Romania, the specific equipment, for humidity, protein content, nitrogen content, size of kernels, and viability of the kernel, used at the experimental sites and in the quality control of barley[40] is imported from France, because it did not exist in Romania. Today to some extent this equipment does exist in Romania through importation.

Both Soufflet Polska and Romania organise regular meetings in these fields. They are organised to assess the whole year and to get feedback as to the problems of the farmers as well as to help with exchanging experiences and information between farmers in peer groups through discussion. It is

[38] These three regions are the best to grow good quality malting barley, and thus are selected because they are fertile areas for barley production and close to Poznan.
[39] They were in a training programme when the interview with them was conducted in November 2001. The training was organised by a Polish agency called PROFESS.
[40] One of the machines in the quality control unit for barley, bought from France, costs £35,000.

another way of keeping the farmers updated with the results on the technical aspects of growing barley in the demonstration/experiment fields. Also, this creates visual effects on farmers to give up any wrong traditional techniques of growing barley[41]. The attendance rate of farmers is high.

According to the director of Soufflet Romania, in addition to the inadequate agricultural supply, there is no nationally coordinated agricultural market information system in Romania. Two issues are derived from this fact, that make relationships of farmers with their suppliers and buyers difficult. To some extent they have been overcome via collaboration with the contracted farmers for Soufflet. The first issue is related to the use of fertilisers. Farmers not only have difficulty in finding fertiliser suppliers but also seek good harvests without using fertilisers. The former is a direct result of the communist system when the organised state institutes were distributing the fertilisers to the kolhoz and thus the farmers were not dealing with it. Therefore, in the free market system they are incapable of contacting the fertiliser suppliers. The latter has been dealt with through training the farmers.

Second, being suppliers themselves, farmers have a lack of information that leads to loose relations with their buyers. They do not know whom to contact so as to sell their agricultural products that are raw materials for the industries. In other words, they do not know who produces what in the industry. The result of this fact is the selection of industrial buyers among farmers who could provide good quality raw material, and in the case of Soufflet, additionally, who could work under the supervision of Soufflet agronomists.

As a result, Soufflet has undertaken the task of guiding farmers for agricultural process techniques in order to receive high amounts of quality barley. This type of local network between a multinational company and farmers paves way for the transfer of Western agricultural production (farming) technology.

5.2. Networks with Foreign Seed Suppliers in the host country

Soufflet Romania entered the Romanian market as late as 1998. However, instead of being a drawback, this has facilitated the development of its barley supplier base through the use of established relationships of foreign seed companies[42]. These are the companies which Soufflet France has business relationships with in their mother companies. Indeed their relationship is based on the provision of seed to Soufflet Romania. In return, Soufflet Romania gives feedback to these companies regarding the application of the seeds in their area and thus they exchange information and ideas to develop varieties that might be more efficient for Soufflet Romania. However, the validation of these seeds, whether they fit Romanian conditions or not, is done by Soufflet Romania. Soufflet benefits from this relationship as it has the opportunity to ascertain which phytosanitary technique suits a specific variety, which product suits which area. Because malting barley is a small market, these companies do not show much interest in further testing of the unsuitable products. But they continuously provide different varieties to Soufflet to conduct its own trials under the supervision of the feedback given by Soufflet to them. In a way, Soufflet is subcontracted to them to make tests freely.

[41] There is a trade-off that farmers should decide on between the traditional technique of using more nitrogen in order to get more yields and having good quality barley with the new techniques advised by Soufflet agronomists. Soufflet pays for the quality of the barley, so the farmers are obliged to pay more importance to quality than quantity in the first instance.

[42] These foreign feed suppliers are also partners of the Soufflet Group in France, which provide phytosanitary products/ seeds to Soufflet. As they have been present in Romania since 1990, they have already created their own business environment, gained experience in the market, and so on. Soufflet has benefited from their established relations and experience to find potential suppliers, i.e. farmers who would be able to follow the experimental fields.

After the first trial of finding the barley suppliers via the seed suppliers and the French contractor[43], Soufflet has become renowned among farmers as being a reliable partner who buys the harvest and pays well in the market. Thus the farmers started to request joining the barley supplier base of Soufflet Romania. The fifty farmers in 1999 have increased to 120-160 (changes according to winter and spring barley) in 2001."A gain for the farmers is a gain for Soufflet"[44] which will end up in higher yields.

Through the experiment fields, Soufflet Romania follows the climatic and agronomical evolution in Romania. This close follow-up helps Soufflet Romania exchange feedback with the seed producers in order to develop better seed varieties for the Romanian climate and thus to improve the yield and quality of the barley. They also give feedback to Soufflet in improving farming processes according to the variety of seeds used to develop malting barley. This is particularly important for Romania as it often faces drought, forcing Soufflet Romania to import barley.

6. National networks

The crucial reason behind the limited degree of national networks is the lack of finance. As mentioned above, the state has significantly less influence on the development of national networks. However, particularly in Romania, agriculture has suffered since the transition and priority should be given to agricultural improvement in the country. There is no continuation of the already initiated goals of former governments by the successor governments. The difficulty of financing the improvements in agriculture escalates as a result of a weakening banking environment. For instance, the former Minister of Agriculture has started to renew agronomical activities in Romania and even asked for help from the multinationals.

Trade policies of the governments regarding the products of the brewery industry affect indirectly the malt producers in the countries. The liberalisation waves in terms of quotas and taxes of brewery products and malt influence the strategic decisions of Soufflet in Poland and Romania. The recent and unexpected decision of the Romanian government to abolish very high import taxes (over 30%) on malt might lead Soufflet to review its way of working.

Apart from the direct influence of the state, there are state research institutes that have lost the momentum of research and come to focus on how to earn money. They are receiving declining amounts of money from government and thus have difficulties in financing their own research. Soufflet Polska has a very limited relationship with such an institute, called IHAR (an institution which was in charge of breeding new varieties during the communist period), in order to register new seed varieties only.

In Romania, Soufflet has contacted the Romanian institute for barley to look for possibilities to cooperate, in particular to develop malting barley cultivation. After consideration, it was clear that Soufflet would have nothing to gain from such cooperation with this institute but to transfer knowledge from itself.

Soufflet Romania has been a member of the Romanian Malting and Brewing Association (APBR) since its presence in Romania. Through lobbying, the director of Soufflet Romania has initiated developing a systematic and efficient interaction between this Association, breweries, seed companies, Fundulea, the Institute of Food Chemistry (official research institute), and the Ministry of Agriculture. He is perfectly aware of the need for an organised network of actors in the malt and brewery industry. His objectives are to develop the production chain in the malt industry, to eliminate the deficiency in

[43] He was employed at the very beginning, before the Romanian agronomist had been employed. He initiated the development of the barley suppliers base through contacts he established with Agriculture Associations in each county in Romania. The Romanian agronomist worked with him for a while and then he left.
[44] Director of Soufflet Malt Romania.

lack of specialisation and to get a decent raw material, which is barley. There is also the lack of user-producer interaction within the value chain which can be enhanced through strong links between these actors. He believes the Ministry of Agriculture can raise funds for a 5-10 year period to financially back up the research activities of these institutions and institutes.

This might be a reflection of the French national innovation system which facilitates the operations of French firms. As discussed by Garrouste and Villeval (Garrouste and Villeval 1997), the French experience might be applied to transition economies in developing an environment where industrial consultancy services fill a crucial gap in the operation of the market system and where state take the lead in this development with its strong and honest structure. They argue that the only difference is the weak state in transition economies which is vulnerable to corruption, thus leads to 'government failure'.

7. Global network of the mother company

7.1. Interactions with the Mother Company: training and consultancy

The subsidiaries of Soufflet are independent in terms of the maintenance and allocation of resources for better optimisation. They establish their business on optimisatioln. The headquarters in France might bring some new clients and markets to its subsidiaries. Concerning know-how and production technologies, there is a constant exchange of experiences between the parent and the subsidiaries. As might be expected, the subsidiaries send weekly and monthly reports to the headquarters.

Soufflet is a good example of multinational companies that have internalised the know-how of malt production and keep it as "an explanator of its ongoing success" as opposed to the evolutionary approach, where collaborative entry modes are regarded as an alternative to other modes of knowledge acquisition rather than a cost-efficient alternative to wholly-owned subsidiaries (Hamel 1991). The know-how (of the malt production) of the company is not shared through collaborative entry modes but transferred to the subsidiaries under the strict control of the mother company, which is also responsible for knowledge acquisition through the research and development unit within the malting division of the mother company. So the enhancement of resources and capabilities in the affiliates of the company has its roots in the mother company.

It provides regular consultancy to its subsidiaries by appointing a specialist for each subsidiary[45]. Soufflet Polska has been visited by a French specialist every month. Soufflet Romania receives constant support from the mother company by way of regular audits from the central laboratory in France for checking out the technology used in Romania as well as visits of advisers for the control of different activities. Each year, a technical adviser for agronomics, another technical adviser for production, another for finance and a commercial adviser visit the Romanian subsidiary from the mother company. A team of people from France travel to the CEE subsidiaries each year to share the knowledge of the mother company and to develop them as well as settle their programmes.

Another form of cooperation with the mother company in France is in training. The training takes place only within the headquarters. Agronomists go to France to see new methods, and the organisation needed in order to implement them in the host countries in accordance with their specifications. They are taught financial training and how to undertake improved lab analysis. There is an emergence of cooperation among agronomists of central and east European subsidiaries.

[45] Working with consultants, at individual or institutional level, is strongly related to the French innovation system (Garrouste and Villeval 1997).

Moreover, Romanian production managers went to France for three weeks training and visits to malt factories in France. The crucial point is the mismatch between technologies used in Romania and in France. For instance, the production manager in Buzau has benefited from the level of high technology use in France, yet at this stage she is unable to apply what she learned.

The interaction of the employees of Soufflet Polska with those of Soufflet Agriculture is based on the visits of a French agronomist/specialist[46] who comes to Poland very often and visits all the farmers as well as monitoring the demonstration fields. In technical terms, to meet this French specialist regularly supplants the need to have technical training. They visit farms together with him and explore the conditions and the problems of the fields with him. They consider this way of direct contact with him very useful and fruitful. Moreover, they are informed about the new solutions that are improved by the agronomists in France, that leads to having bigger crops.

7.2. Integrating to the global network of the mother company

Soufflet Group has integrated its subsidiaries into its global network rather than its global network with the national and local networks that are established or are emerging in the host countries. The global network of the Group is internally developed and kept totally internal.

In terms of research, the research unit in the malting division of Soufflet Group in France selects new varieties, develops agronomical techniques, tests other companies' chemicals, fertilisers, etc. and in cooperation with Soufflet Agriculture keeps the subsidiaries updated with the new developments.

The Group is a part of the French Institute of Brewing and Malting (IFBM - Institute Francais des Boissons, de la Brasserie et de la Maltrie) inter-laboratory network in the malt industry, and provides services to the food industries in technical and quality analysis as well as consulting (IFBM 2001) The research unit of the malting division collaborates with IFBM on the development of malt production technology and its Qualtech laboratories, which is a subsidiary of IFBM, specialised in malting process. So do all the central and east European subsidiaries. They send two samples of malt to the Qualtech laboratory[47] every month to check whether their analyses are accurate and to determine where they are amongst other malting companies in Europe. In Romania, they double-check their quality control mechanisms by receiving a sample from IFBM and analysing it in the laboratory in Romania, and then matching the results with those of Qualtech. If the parameters are outside the limits of the analysis, then the analysis and the equipment are re-checked.

Soufflet Romania sends some samples to France for testing the homogenic variety in order to identify the barley, since the necessary equipment is in France and very expensive, and the laboratory equipment in Romania is mainly for quality control.

Central and east European subsidiaries receive support from and use the former established relationships of the mother company as well as having relationships among each other. There is a strong internal network among the parent, the subsidiaries and the trading affiliates. As discussed in relation to local networks, in Romania, Soufflet is in a close relationship with the affiliates of other multinational companies whose parent companies are already in business relationships with Soufflet France.

In terms of financing the activities of subsidiaries in central and east Europe, as a result of mistrust in the banking system, subsidiaries get credit from West European and French Banks.

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[46] He is a farmer with an average farm in France who has been working for Soufflet as an adviser for a few years.

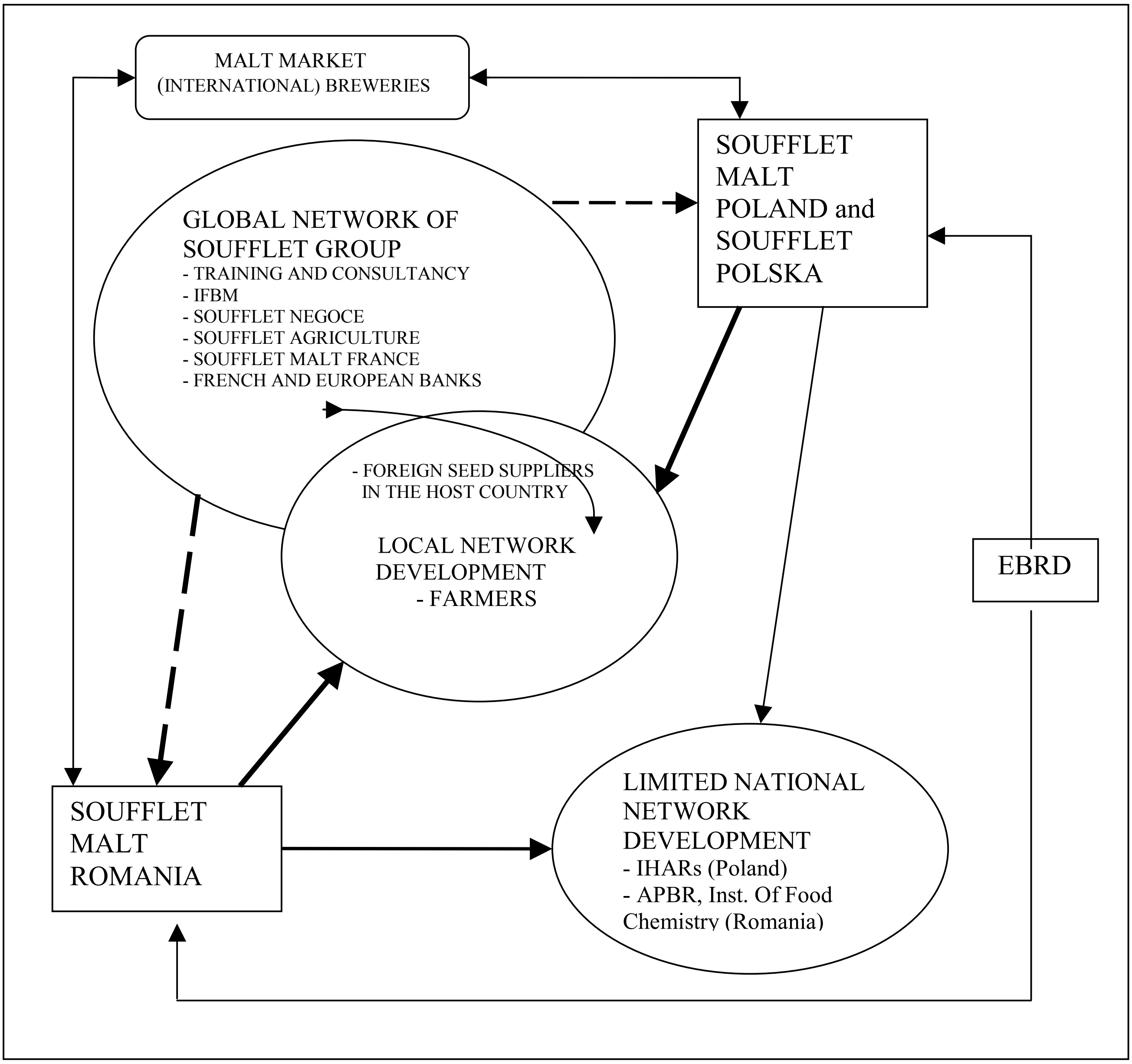
[47] Qualtech is an inter-laboratory in the IFBM network, specialised in the malting process, where 60 malting companies send two samples of their malt every month. Qualtech codifies and produces a report out of these results.(Soufflet Group Web page 2000)

8. Conclusion

Soufflet is an important player in central and east Europe in the malt industry. As it aims at continuing its strategic investments and follows the strategy of local supply and local sale, it gives its main emphasis to its relations with barley suppliers in its value chain. The externalisation of this activity brings about an active role for Soufflet in rejuvenating the agriculture in these countries despite the weak physical and agronomical conditions. It has revived the once less profitable and thus abandoned malting barley production through the long-term guarantee of business with the farmers in return for their cooperation to produce quality malting barley for the quality malt production.

Except in its relationship with farmers, where it practices externalisation, the hierarchical organisation of Soufflet brings about internalisation of knowledge within the Group and accounts for a strong global network of Soufflet. The subsidiaries are successfully integrated into this global network and it gets aligned with the local network developed by the efforts of the central and east European subsidiaries (see Figure 3). The alignment of national networks appears to be weak in Poland compared to Romania. Indeed it shows that the national networks are possibly better in Poland than in Romania. The main reason for the initiative of the Romanian subsidiary is the lack of agricultural market information in Romania. This fact leads the Romanian subsidiary to take action against developing a business environment through organising a platform for cooperation among agents in the malt and brewery industry.

Figure 3: Alignment of networks of subsidiaries of Soufflet in Poland and Romania



As a result, the mode of growth of the central and east European subsidiaries of Soufflet turns out to be a combination of generic (internal) expansion and interorganisational relationships, i.e. networks (Peng and P.S.Heath 1996). This suggests that the Western model of growth of the firm has been dominant in the growth of Soufflet in central and east Europe. The hierarchical organisational structure of the mother company is apparent in the generic expansion of the subsidiaries through capable managers. The development of the local networks by the central and east European subsidiaries is based strongly on the trust and mutual understanding between the parties in the networks. Finally, the alignment of the global network of the mother company with the local network of the subsidiaries emanates from the fact that *the organiser and driver* of these networks is Soufflet. However, at the national level, it is more complex due to a cultural (and former political) tradition to break the boundaries even for powerful multinational firms.

The choice of entry mode has no significant implications for the development of the networks. Instead the main determinants are the corporate strategy of the mother company and the insight of the directors of the subsidiaries.

Having penetrated central and east Europe in 1998, Soufflet is relatively a new player in the malt industry. Looking at what it has succeeded at so far and thinking what it might continue to achieve, we conclude that the company contributes to the industrial integration of these countries into the EU. Hence, it deserves more research after a few more years so as to fully understand the growth of the multinational firms and the extent of their contribution to the industrial integration of CEECs in the context of foreign direct investment and network alignment.

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