The relationship between the presence of foreign-owned companies and firm entry – the case of the Hungarian districts

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The foreign-owned companies and their impacts on the various dimensions of the economy (both on national and sub-national levels) might be a crucial issue in those countries whose economy relies significantly on them, such as the Central and Eastern European countries, including Hungary (e.g., Sass et al., 2018; Gál & Lux, 2022; Götz et al., 2023). Previous studies revealed a somewhat positive effect of FDI on the entry of new firms in the Czech Republic (Ayyagari & Kosová 2010; Kosová 2010) and the Visegrad countries (Wach & Wojciechowski, 2016), but the extent of this effect varied among the nations. Additionally, the positive impact of foreign-owned companies on firm entry seems to be more significant in countries with relatively weak institutional backgrounds and political stability or that provide less opportunity for human capital to acquire and develop skills (Kim & Li, 2014). Pavlinek and Zizalova (2014) found a low share of domestic suppliers in the total supplies of Czech-based foreign firms and diverse spillover effects from foreign to domestic firms. Domestic firms vary in capabilities and absorptive capacity, which, along with the particular nature of the contemporary automotive value chain, significantly influence their ability and potential to benefit from linkages and spillovers.

However, the literature on the relationship between foreign-owned firms and entrepreneurship presents conflicting results. On the one hand, several studies have found promising positive impacts of foreign-owned companies on the entry of domestic companies. These companies can boost demand in local resource markets (Ayyagari & Kosová, 2010) and elevate the technological level of the host country/region by introducing new technologies (Acs et al., 2007; Kosová, 2010; Bisztray, 2016). This can lead to positive impacts on local actors through knowledge spillovers. Moreover, foreign-owned firms can indirectly foster the development of individual entrepreneurial abilities by providing a high-level working environment and knowledge for the local workforce, which can be utilized for the establishment of a new company (Chowdhury et al., 2015). They can also enhance the productivity of domestic firms (Apostolov, 2017).

However, on the other hand, other empirical findings have shown that the role of foreign-owned companies in promoting entrepreneurial activity and enhancing the number of new firms in the host countries is mixed and sometimes contradictory (Albulescu & Tamasila, 2013). Foreign-owned firms may displace local firms from the local markets (De Backer & Sleuwagen, 2003; Kosová, 2010). Foreign-owned companies might influence the level of competition in terms of labor concentration and wages (Abolhassani & Danakol, 2019). In this way, they can attract scarce local resources (such as the qualified workforce) from domestic firms (Danakol et al., 2017). Moreover, foreign-owned companies can also influence entrepreneurial activity by attracting graduates with well-paid and safe jobs for a highly educated workforce instead of starting their firms (Berrill et al., 2020). The negative effect of FDI on domestic entrepreneurship seems stronger in relatively low-tech industries than in relatively high-tech sectors (Abolhassani & Danakol, 2019).

Our study, situated within the existing literature, aims to shed light on the relationship between the presence of foreign-owned companies and the entry rates (i.e., firm birth) in the Hungarian districts. Previous studies have already investigated the importance of foreign-owned companies in the Hungarian economy: the role of these companies in bringing in new knowledge and enhancing regional R&D (Varga & Schalk, 2004); their impact on the differences in growth trends among Hungarian counties (Lengyel &Varga, 2018; Zsibók & Páger, 2021); their function in pursuing entrepreneurial activity in the national level (Acs et al., 2007), or their influence on the industrial structure of the Hungarian districts (Elekes et al., 2019; Szakálné Kanó et al., 2019).

The paper analyses whether the effects of foreign-owned companies on firm entries are negative or positive. In the frame of this investigation, we attempt to reveal both the cross-sectional (region, industry) impacts and the spatial effects. By assuming that these foreign companies might facilitate the entry of new firms, thereby enhancing the local economy of these districts. Along this assumption, two preliminary hypotheses are structured. On the one hand, the presence of foreign-owned companies may support the entry of new firms due to providing opportunities for local suppliers (effects on related activities), and it might also offer demand for products and services in the region (effects on non-related activities). On the other hand, it is assumed that the impact of foreign-owned firms is spatially limited. Thus, we do not expect a spatial autocorrelation, i.e., the entry rates of the neighboring districts might be less affected by the presence of foreign-owned companies than those districts that host these companies.

Our investigation is based on a panel dataset containing data from the Hungarian Central Statistical Office and the Databank of the HUN-REN Centre for Economic and Regional Studies. These reliable data sources allow us to accurately measure the change in firm entry rate at the district level, which we use to describe the districts' entrepreneurial activity. The change in employment of foreign-owned companies is applied as the primary explanatory variable. Additionally, several other control variables are included in the model to describe the socioeconomic conditions of the districts, ensuring a comprehensive analysis.

Initial results suggest a positive relationship between the entry of new firms and the presence of foreign-owned companies; however, this positive effect appears to manifest with a delay of a few years.

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