

Strategy from the perspective of contract manufacturers

Zsuzsanna Szalkai

*Budapest University of Technology and Economics and
Corvinus University of Budapest, Budapest, Hungary, and*

Mária Magyar

Budapest University of Technology and Economics, Budapest, Hungary

150

Received 15 June 2015
Revised 29 October 2015
17 January 2016
21 April 2016
10 June 2016
Accepted 16 June 2016

Abstract

Purpose – The purpose of this paper is to investigate the strategy of contract manufacturers (CMs). The research question is the following: how can the strategy of CMs be explained? The purpose is to better understand this activity through using different theoretical approaches and analyzing two customer relationships of a Hungarian CM, Videoton Holding.

Design/methodology/approach – The primary theoretical background is the relational view of strategy, and the concept of the business model is used for the analysis. The authors confront the literature about this topic in strategic management using the industrial marketing and purchasing approach to strategy; namely, strategizing. Through the case study of Videoton the authors explore how the company became a highly developed CM from its origins as an original equipment manufacturer company.

Findings – Through comparing theory the authors have created a research framework which is adapted to the empirical findings. In the CM's strategy it is crucial to understand how partners are able to synchronize key propositions, key resources and key actors while taking the network of the firms into consideration.

Originality/value – The paper is novel in that the authors investigate the strategy of a supplier from their own perspective, not that of a customer. Applying and contrasting different theoretical approaches to this particular topic may be considered to be valuable as well.

Keywords Strategy, Business model, Hungary, Strategizing, Contract manufacturing, Videoton

Paper type Research paper

Introduction

Contract manufacturing is of major importance to the modern global economy and is used in numerous industries such as electronics, pharmaceuticals, medical equipment and automotive manufacturing. Since one of the major goals of contract manufacturing is to reduce the costs of original equipment manufacturers (OEMs), China and Central-Eastern Europe have become popular locations for this type of manufacturing activity.

Because of the importance of contract manufacturing to the business world, better understanding of the strategy of participating companies is useful both to academic researchers and practitioners. In this paper we place the topic into a Hungarian context. The following fact indicates the significance of the role of contract manufacturing in the Hungarian economy: 20 percent of the electronic manufacturing services (EMS) providers in Europe are represented in Hungary. According to the EUGO Hungary web portal (an information portal for entrepreneurs seeking to do business in Hungary) “six out of the top 10 EMS providers in Europe are present in Hungary.” Most of the EMS providers in Hungary are subsidiaries of foreign multinational companies – Canadian, Asian, German, and others.

This paper describes a case study of the Hungarian company Videoton, a Tier 2 supplier[1] in the automotive industry and the “largest local industrial company group in Hungarian

The authors would like to thank the reviewers for their insightful suggestions and all the participants at the IMP workshop who provided the authors with valuable feedback on earlier versions of this paper.



private ownership” (group presentation on company website, 2015), a significant national contract manufacturer (CM). Videoton’s largest market is the automotive industry, which accounted for a 45 percent share of revenue in 2014 (group presentation on company website, 2015).

From a theoretical perspective, the term contract manufacturing usually appears in the supply chain management and operation management literature. “Contract manufacturing is regarded as a supply chain arrangement by which a manufacturing firm outsources some of its manufacturing processes to an outside supplier through a contractual agreement” (Han *et al.*, 2012, p. 159). In terms of research, the capacity and cost features of the supply of finished products (Lee and Tang, 1998 cited in Kim, 2003) or semi-finished products (Kim *et al.*, 2002; Kim, 2003) are often investigated and mathematically modeled. “Contract manufacturing is defined as a provider of goods and services working collaboratively with other providers of goods and services as networked business partners to satisfy market niches by exchanging information through an interorganizational information system” (Chan and Chung, 2002, p. 118), and as “a long-term relationship, integrating competency for future markets, suppliers managing themselves for performance, and top management working with other business partners” (Han *et al.*, 2012, p. 160). The strategic component of contract manufacturing is usually investigated from the perspective of OEMs in management literature.

The current authors agree with a statement that Holmen *et al.* (2006) make about the literature on suppliers: “seldom are the suppliers viewed as actors with their own strategies and visions and, consequently, the alternative actions and possible relationships available to the suppliers are rarely discussed” (Holmen *et al.*, 2006, p. 2). This claim, well represented in the associated stream of research, is essentially still valid. In our research we analyze strategy from the perspective of CMs.

The topic of strategy has been dealt with through numerous scientific fields and approaches. The most obvious approach is that of strategic management. We chose this approach and that of the industrial marketing and purchasing (IMP) Group for the analysis which is described in this paper. According to the perspective of the IMP Group, company strategy cannot be exclusively treated as a company-related issue with no consideration of partners (Håkansson and Ford, 2002).

In the literature review which follows, the authors first describe the most recent findings from the manufacturing and operations management literature about contract manufacturing that deals with strategic questions. We then focus on describing the literature about strategy; more precisely, the relational view. In the strategic management literature the relational view appears mostly in the concept of the business model. The IMP approach to strategy – or rather, strategizing – is inevitably relational because of the IMP view of business. We further analyze the concept of the business model using these different theoretical approaches.

In the empirical part of the paper we first provide a short historical overview of Videoton which spans the period from its privatization until current times. We focus on describing the dynamics of its activities and investigating how it developed from a pure subcontractor into a highly developed CM. We emphasize the need to understand the relational view through examining two of Videoton’s customer relationships. The case study approach helps us to reveal what respondents think about Videoton’s strategy and assists us in classifying their perspectives into different strategic approaches. In the discussion section of the paper, we compare our research findings to those found in the literature.

The paper is novel in that the authors investigate the strategy of a supplier from their own perspective, not that of a customer. The strategies of CMs in Central-Eastern Europe have not yet been specifically addressed in research. Moreover, originality is increased through the application of strategic management and IMP approaches.

Theoretical background

Contract manufacturing in the supply chain management and operational management literature

Most of the studies about contract manufacturing have examined strategic issues from the perspective of OEMs. Han *et al.* (2012) concludes that there are three streams of research in this field. The first group of studies deals with “the evaluation of the operational and financial benefits provided by contract manufacturing.” The second group of studies deals with the selection of CMs, while the third type of study examines the “management of consequences of contract manufacturing due to information asymmetry between OEMs and CMs” (Han *et al.*, 2012, p. 160). While the first two types of studies focus on the OEM, the third type considers CMs from the perspective of risk-sharing or product development.

Hu (2011), for example, contributes to this topic by summarizing the benefits OEMs can obtain from contract manufacturing and describes the requirements OEMs have for their CM partners in the biotech industry. Among the expectations he lists experience, flexibility, having highly skilled and knowledgeable personnel, suitability, reliability, adequate capacity for producing high-quality products in appropriate quantities, and prompt and articulate communication. Besides the importance of having the appropriate manufacturing equipment, Hu emphasizes that OEMs consider it important to verify that CMs have a quality assurance system and are financially stable (in the context of the CM’s own network of suppliers).

China has become the focus of research about contract manufacturing since the country is the world’s largest manufacturing base. Sodhi and Tang (2013) describe the strategies of Chinese CMs and Western OEMs based on information that was published in the business press from 2001-2011, with a focus on the electronics and apparel industries. Table I summarizes findings about the strategies and tactics of CMs.

Although Sodhi and Tang (2013) handle the strategies of CMs and OEMs separately, they compare the two and conclude that the strategies lead to cooperation, competition and co-opetition[2]. The authors use game theory in a supply chain management setting in their

Tactics of CMs and how they support different strategies	CM strategy 1: extract more value from current OEMs	CM strategy 2: add more OEM customers in same or other product categories	CM strategy 3: sell directly to end-customers
1. Develop knowledge about customers	Use knowledge to provide more services	Use knowledge to offer products and services to new OEMs	Use knowledge to sell products directly to end-customers
2. Increase consumer visibility	Extract higher rent from OEMs	Use brand to attract new OEMs	Use brand to sell products directly to end-customers
3. Explore new/emerging product categories	Support OEM in seeking new product categories	Attract new OEMs in these product categories	Sell products directly to end-customers in these new categories
4. Invest in R&D	Offer more services to current OEMs	Develop new capabilities for new OEM customers	Develop products for end-customers
5. Thinking green	Support OEM in furthering OEM’s green credentials	Attract new OEMs based on green credentials	Sell products directly to end-customers based on green credentials
6. Acquire OEM’s underperforming assets	Improve OEM’s ROA by taking OEM’s underperforming assets	Use spare capacity to offer products to other customers	Obtain customer information by getting closer to the end-customer
7. Shed assets	Become more flexible in taking other tactics		Become more flexible in seeking end-customers while still retaining OEM business

Table I.
Tactics of CMs in support of the posited strategies

Source: Sodhi and Tang (2013, p. 20)

work and adapt the concept of the “value net” for CMs and OEMs (see Figure 1). The value net was originally introduced by Nalebuff and Brandenburger in 1996 (cited in Sodhi and Tang, 2013). The links between each participant indicate potential points of co-opetition.

Chan and Chung (2002) emphasized the changing character of contract manufacturing in a paper published more than ten years before Sodhi and Tang’s (2013). From “simple” outsourced manufacturing, contract manufacturing has developed into an issue of strategic importance to OEMs. As OEMs require more added value, CMs develop more competences. As a result of this process, many CMs, especially in Asia, become competitors of OEMs.

The concept of strategy in the strategic management literature, with a focus on the relationship between companies

In terms of strategic management, strategy focuses on competition among firms (e.g. Porter, 1980), although recognition is increasingly being given to the role of partnerships. Bertodo (1991) calls the relationship between suppliers and customers in the automotive industry a “co-producer” relationship. He draws attention to the changes in relationships with suppliers that occurred in the 1990s, and compares these relationships to those which existed in the 1970s. Over this time the number of automotive suppliers decreased from 1,200 to 350, contracts started to represent long-term relationships, supplier interfaces became multi-functional, suppliers became involved at the conceptual stage of new models, and suppliers started to offer both product and value added service (Bertodo, 1991, p. 47). In Gulati *et al.*’s (2000) seminal work about strategic networks an example is offered of the US automobile industry, where the number of suppliers decreased, but “longer-term relationships and greater supplier involvement in the design process” started to play a strategic role (p. 204).

Relationships with partners (and more specifically, with customers), mainly appear in the concept of business models in the general management literature. A business model is considered a “softer” instrument than a strategy and indicates what customers value, how to capture that value and how to make a profit (Magretta, 2002). Magretta takes a fairly narrow approach when it comes to defining new business models: the author states that they involve making something new, or innovating; i.e. they concern the process of selling a product. The author also says that the difference between a business model and a strategy is that the latter also deals with competition. Magretta’s notion that practice comes before business model fits with the strategy-as-practice perspective (Whittington, 1996) and also with the view held by Teece (2010) that business models require experimentation and learning.

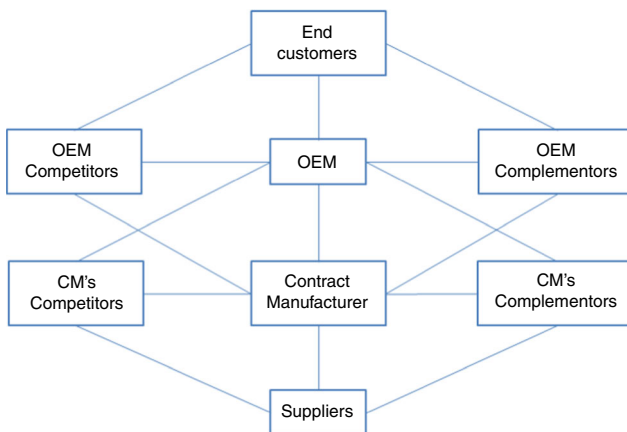


Figure 1.
Value net for
contract
manufacturers
and OEMs

Source: Sodhi and Tang (2013)

“Business model” is defined in many ways in the management literature. According to Teece (2010), the “business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profits” (p. 173). The author considers a business model to be more interdisciplinary and more generic than a business strategy.

Perhaps Ostenwalder *et al.* (2005) (cited in Spector, 2011, pp. 3388-3389) describe the content of the business model in the most comprehensive way. These authors claim that a business model must contain:

- (1) a value proposition – what the firms offer to the market;
- (2) market section – what are the segment(s) of clients addressed by the value proposition;
- (3) the communication and distribution channels to reach clients and offer them the value proposition;
- (4) the relationships established with clients;
- (5) the key resources required to make the business model possible;
- (6) the key activities necessary to implement the business model;
- (7) the key partners and their motivations to participate in the business model;
- (8) the revenue streams generated by the business (the revenue model); and
- (9) the cost structure of the business.

In the management literature, a business model can be also defined as the abstraction of a business strategy (Seddon *et al.*, 2004) and “is more about how a business works as a system” (Spector, 2011, p. 3389).

Achtenhagen *et al.* (2013) deal with the dynamics of business models by investigating 25 firms (mostly SMEs) which have demonstrated on-going growth. They compare changes in business models, strategizing actions and critical capabilities and come to the conclusion that firms which have the critical capabilities of “an active and clear leadership style, a strong organizational culture and employee commitment to work” were able to successfully renew their business models (Achtenhagen *et al.*, 2013, p. 428).

The concept of strategy in the IMP literature – the relational and network perspective

The IMP perspective is fundamentally based on the business relationships of a firm that are embedded in a business network (Håkansson and Ford, 2002; Gadde *et al.*, 2003; Håkansson and Snehota, 2006; Ford and Mouzas, 2008; Borgström and Hertz, 2008; Benson-Rea, 2007, among others). Baraldi *et al.* (2007) provide a comparative analysis of strategy using the strategic management and the IMP approach. The authors conclude that, from the theories they compared, Mintzberg’s emergent strategy comes closest to the network approach to strategy; however, strategizing in networks is complex and more research is needed before any accurate statements about management can be formulated. Researchers from the IMP group prefer to use the word strategizing instead of strategy, “probably because of the connotations it brings to traditional strategic management” (Gadde, 2014, p. 52). Moreover, the term strategizing also appears in the strategic management literature. Hamel (1996) distinguishes between strategic planning and strategizing. The author states that strategic planning is “programming,” while strategizing is “discovering.” “Planning is for technocrats, not dreamers.” “Strategizing is not a rote procedure – it is a quest” (Hamel, 1996, p. 70). Strategizing means “implementing strategy,” or the practice of managing strategy; in other words, “any activity that might contribute to the orientation of the organization” (Johnson *et al.*, 2007, p. 58).

The road to understanding the IMP view of strategizing has been paved with the interaction and the network approach. The unit of analysis in IMP is the relationship between the supplier and the buyer, not the organizations themselves (Håkansson, 1982). Because of the interdependence that exists between organizations, “no individual or organizational actor exists, or can operate independently”; moreover, the “outcomes of the actions of any company will be strongly influenced by the attitudes and actions of those with which it interacts, and that interaction involves simultaneous elements of co-operation, conflict, integration and separation in the companies’ relationships” (Ritter and Ford, 2004, pp. 100, 109).

According to the relational view, “a core aspect of strategy is the ability to build and maintain relationships with others” (Håkansson *et al.*, 2009, p. 169). This is why IMP emphasizes the relational view of strategizing, as captured in the following quote: “a strategizing task is about identifying the scope for action, within existing and potential relationships and about operating effectively with others within the internal and external constraints that limit that scope” (Håkansson and Ford, 2002, p. 137). The present authors accept that business relationships are embedded in business networks (Håkansson and Snehota, 1995) and also the argument of Ford and Mouzas (2008) that “the strategy of a single company can usefully be interpreted as part of the process of interaction through which the company and others confront aspects of the status quo with new evolving possibilities, whilst conforming to other existing patterns within the network” (Ford and Mouzas, 2008, p. 64).

According to IMP theory, a network is an “aggregated structure” of connected relationships (Håkansson and Snehota, 1995, p. 19). The two basic characteristics of a network are stability and change (Håkansson and Snehota, 1995), while networking involves the managers’ “attempts to affect interaction” (Håkansson *et al.*, 2009, p. 197). “Networking involves combined co-operation and competition and simultaneous combinations of working with, through, in spite of or against others” (Ritter and Ford, 2004, p. 110). This perspective admits the simultaneous presence of competition, co-operation and co-opetition in a network. The six activities which generate change or stability in a network have been called the six Cs of networking: confront or conform, create or consolidate, and coerce or concede (Ritter and Ford, 2004). Another important feature of networking is “learning by doing” (Ritter and Ford, 2004), since the activities in a network are not under the control of any single company, yet these interactions affect other interactions in time and in space (Håkansson *et al.*, 2009).

The most recent IMP literature about strategizing deals with the boundaries of firms (Sousa, 2014; Gadde, 2014). However, as these studies focus on the customer in a supplier-customer relationship, they may be considered to be OEM-centric regarding the topic of focus of this paper. Sousa (2014) deals with make-or-buy decisions in relation to the boundaries of a firm. The results of a longitudinal study of a supply network (Hulthén and Torvatn, 2014) which analyzed the purchasing strategies of firms indicate the interactive nature of strategizing.

After having introduced contract manufacturing according to the supply chain management and operational management literature, and having provided a short overview of the concept of strategy with a focus on the relational view as it is found in the strategic management and IMP literature, in the following section the research problem and the framework that was created to analyze the strategy of Videoton as a CM is introduced.

Problem discussion and research framework

From the first section of the theoretical background to this paper it is clear that in terms of the analysis of strategy in contract manufacturing, partners cannot be handled as independent companies. Relationships between partners play a key role in strategy, no matter whether analyzed from the perspective of OEM or CM. However, analyzing strategy with strategic management theory turns out to be problematic because this

view is firm-centric. In contrast, the IMP approach considers that strategy can only be created if the business relationships of firm are taken into consideration. However, managers are aware of – and use – mainstream concepts of strategy in practice. Accordingly, understanding the strategy of CMs through use of the classical strategic management and the IMP perspective is defined as the research problem.

As mentioned in the previous sections, relationships with customers are clearly expressed through the concept of the business model. This may be the reason that the business model has also become a focus of IMP literature. A special section of the 42nd volume of the *Journal of Industrial Marketing and Management* dealt with “business models – exploring value drivers and the role of marketing” (LaPlaca, 2013). Several articles from this edition relate to business model innovation.

Mason (2008) provides a comprehensive overview of business model definitions and concepts. She finds similarities between the definitions of business models concerning, for example, the transactions of a firm – the network structure – which are core parts of the business model. The other common element is the set of questions that a business model addresses; namely: “how do we make money?” and “how do we create value?” (Mason, 2008). “Morris *et al.* (2005) identify three distinct levels at which business models have been applied and researched; economic, operational and strategic” (Mason, 2008, pp. 4-5). From the perspective of the research described in this paper, the strategic level is most relevant. “The strategic level emphasizes the overall direction in the firm’s market positioning, interactions across organizational boundaries, and growth opportunities” (Mason, 2008, p. 5).

Coombes and Nicholson (2013) reviewed the literature about business models and conclude that “[none of the] definitions appear to have been fully accepted by the business community; consequently practitioners appear to be confused about how to use the concept” (Coombes and Nicholson, 2013, p. 657). These authors found the following elements to be common to the different definitions of business models they compared: value, value creation, value capture, value proposition, and value delivery. It is important to note that value creation takes place in a network of customers, suppliers and other stakeholders. The concept of value co-creation is also supported by Ehret *et al.* (2013). Coombes and Nicholson (2013) suggest that the IMP “interaction and network perspective [...] contains numerous models and theories that could be deployed to further develop the distinctiveness” of business models (Coombes and Nicholson, 2013, p. 663).

After examining the business model literature, Mason and Spring (2011) state that a business model may be observed in two different contexts: the firm level and the network level. Their business model framework contains three elements: technology, market offering and network architecture. The dynamics of business models are emphasized: “Business models are not first designed and then implemented, but are more useful thought of as a strategy-as-practice; incrementally emergent and ever-changing” (Mason and Spring, 2011, p. 1033). Both in the strategic management and the IMP literature, authors emphasize the strategy-as-practice character of business models and the role of learning (Magretta, 2002; Whittington, 1996; Teece, 2010; Mason and Spring, 2011).

According to Freytag and Clarke (2012), applying the firm-level context places limits on business model concepts in strategic management. The authors also claim that “change[s] of the individual firm’s business model become [...] a matter of the overall possibility of the network to change” (Freytag and Clarke, 2012, p. 5).

Relations and networks appear both in the management and in the IMP literature, but in different contexts. For example, referring back to Hu (2011) who listed the requirements of the buyer from the CM’s perspective, the importance of the quality and financial stability of the supplier’s own network are emphasized. These remarks reflect the IMP network view of a business relationship (Håkansson and Snehota, 1995, and others). In the process of selecting a business partner it is important to examine their supply network.

The relevance of networks appears in the work of Sodhi and Tang (2013) (see Figure 1) and is the core principle of the IMP approach. However, in the present authors' understanding Sodhi and Tang's (2013) network – as it applies to strategic management – relates to a network of firms, while the IMP approach refers to a network of business relationships (Håkansson and Snehota, 1995).

The most important conceptual differences between the approaches can be understood in terms of the different levels or contexts at which they are applied: the level of the firm (internal context), through the relationship between firms (relational context) or at the network level (network context) (see Table II).

The difference between the internal and the relational contexts of business models is perfectly described by Håkansson *et al.* (2009) in an analysis of the success of actors. According to the internal view, “the success of the company depends on the economic efficiency of its ‘business model’” (Håkansson *et al.*, 2009, p. 156), while the relational view indicates that “success for a business actor is time dependent, relationship specific and determined by the way that the actor co-evolves with others” (Håkansson *et al.*, 2009, p. 157).

The description of the business model provided by Ostenwalder *et al.* (2005, cited in Spector, 2011, pp. 3388-3389) contains important elements which are core to IMP theory: relationships, resources, activities and partners. The latter three may be considered to correspond to the elements contained in the A-R-A model: activities, resources and actors. According to this model, “three different layers of substance can be identified in a business relationship” (Håkansson and Snehota, 1995, p. 26); the activity layer, the resource layer and the actor layer. These layers or links play important roles in strategy development. “Activity links in business relationships are a tool of position development and a channel that relays the impact on changes in the activity pattern on the company” (Håkansson and Snehota, 1995, p. 127). Concerning our research, the most important issue is resource development, because this enables position development. Meanwhile, actor bonds play an important role “in the manoeuvring for position in the network” (Håkansson and Snehota, 1995, p. 265).

Let us now examine business models in the context of contract manufacturing. According to business management experts, the increasing volume of contract manufacturing is part of a business revolution according to which business management is increasingly being forced to deal with business models (e.g. Spector, 2011). Other revolutions which have increased the importance of the theory and practice of business models include the emergence of information technology and systems, and the internet and globalization (Spector, 2011). IMP researchers have already addressed the topic of e-business (Wilson and Chen, 2000; Hartmann *et al.*, 2001) and information technology (Nøkkentved, 2007). Contract manufacturing itself may be considered to be “a new business model for SMEs” (Chan and Chung, 2002, p. 114).

Araujo *et al.* (1999) examine the management of resource interfaces between suppliers and buyers and identify four different interfaces. According to the descriptions of these interfaces, pure subcontracting corresponds to a “specified interface,” while contract manufacturing corresponds to a “translation interface.” In a “translation interface,” the “supplier takes on a greater responsibility in the relationship” which leaves more “freedom

Concepts	Strategic management approach	IMP approach
Strategizing	Internal	Relational and network
Business model	Internal, relational, network	Relational and network

Sources: Authors' construction based on Hamel (1996), Mason and Spring (2011), Håkansson and Ford (2002), Ford and Mouzas (2008), Håkansson *et al.* (2009)

Table II.
The different contexts
of the concept of
strategizing and
business model in
strategic management
and IMP literature

for the supplier in deciding how best to meet the buyer’s specifications based on user context” (Araujo *et al.*, 1999, p. 500). Although the related paper is customer-focused and analyses how to better manage the interfaces from the customer side, some of the conclusions the authors make are also relevant to suppliers. For example, the authors state that the capabilities of the supplier determine which type of interface can be created, and that through developing these capabilities the interface can be modified (e.g. from a specified interface to a translation or a joint-learning interface). Such development has occurred with the Chinese CMs (Sodhi and Tang, 2013) and within the automotive industry (Helper, 1991). According to research by Gelei (2012, p. 149), the competences of automotive suppliers in Hungary include capacity, product, adaptation and network and innovation competence. According to this interpretation, competence links customer value and organizational capabilities.

Based on this theoretical background, and following the discussion of the problem, the research framework illustrated in Figure 2 was developed.

The framework incorporates the CM with its business model, and customers, so that the translation interface between them requires a certain degree of cooperation. We have included the value proposition into the business model – specified as the “key proposition” – because it is a common element in definitions of business models according to the literature. Key resources, key activities and the partners themselves are also common elements in the strategic management approach of the business model and IMP theory. The research framework also includes the features of a network, because relationships are embedded in networks. Customers are indicated using a dashed line because business models can be modified through the acquisition of new customers; this represents the dynamic nature of the business model.

In the following section we describe the case of the Hungarian CM, Videoton.

Research method

A case study research approach was chosen to explore the strategy of a CM, in line with the authors’ research aims. Case research is widely used in industrial marketing studies, especially in IMP research (Dubois and Araujo, 2004), and the theoretical contributions of case studies are generally accepted in the literature (Eisenhardt, 1989, 1991; Eisenhardt and Graebner, 2007). Case study research “is particularly well suited to new research areas or research areas for which existing theory seems inadequate” (Eisenhardt, 1989, pp. 548-549). Research is typically based on one deep single case, which is appropriate for revealing “new theoretical relationships” (Dyer and Wilkins, 1991, p. 614).

For the present research we employed empirical data from a wider case study of Videoton. The original case study involved an analysis of business relationship management through the development of Videoton Automotive Electronics (VT AE) Ltd.,

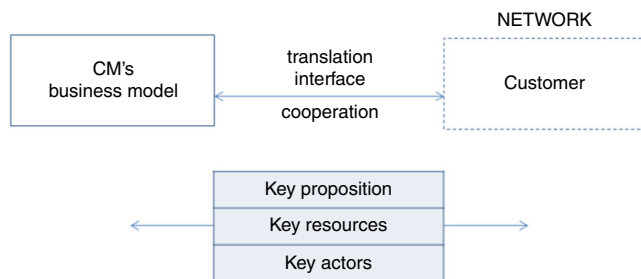


Figure 2.
Research framework

Source: Authors’ own construction

one of the most successful subsidiaries of Videoton Holding, and the major actor in the EMS activity of the company. The final choice of the particular company was not preplanned. The authors of the paper participated in a workshop in 2011 to which one of the CEOs of Videoton was invited. The CEO was interested in being involved in a study about the success of Videoton Holding and the success of VT AE in particular.

The research may be considered a single case study; a total of 25 in-depth interviews were conducted at Videoton with managers at different levels. Each interview lasted approximately 1.5 hours, although some were longer. Interviews were voice and video recorded. Although the videos helped us to interpret exactly what our respondents had said, the primary reason for making the video recordings was for educational purposes (the authors use them in lectures and seminars). In most cases, two interviewers were present at each interview. All the interviews were conducted in November 2012, except for the interviews with the CEOs which were completed in September 2013.

For the analysis described in this paper we employ data from five interviews with management figures, including the two company CEOs, the vice president of business development, the director of international projects at Videoton Holding and the managing director of VT AE Ltd. We chose these interviews for further analysis because these respondents are responsible for managing strategy-related tasks which concern Videoton Holding and VT AE Ltd. For this paper we did not incorporate the interviews with managers at lower levels because their personal careers at Videoton dominated the conversations and they were judged to be lacking an overall picture of the strategy of either VT AE or Videoton Holding. To facilitate investigation of the CM status of Videoton and its development from a relational perspective, the authors identified two important customer relationships of Videoton. These customers are Tier 1 suppliers in the automotive industry. One of these relationships (with the company Alcoa Fujikura Limited (AFL)) has now ended, while the other involves VT AE Ltd.'s largest customer (the French company Valeo). Besides using information from the company interviews, we additionally managed to make contact with the former executive vice president of AFL through e-mail in the spring of 2015. We include some of his comments about the Videoton-AFL relationship.

Besides primary data, company records, internal publications and Videoton's website were also examined as important sources of information.

The findings described in this paper have been validated by the vice president of business development of Videoton.

It is important to note that this present paper is a result of continuous interplay between theoretical and empirical research. The process of data collection involved several distinct stages (e.g. qualitative data collection took place in November 2012, September 2013 and spring 2015). The starting point is the broad case study described above. Strategy as a research topic was decided upon after the first interviews took place in 2012 and the interviews with the two CEOs were conducted after the literature was examined. The research concept was developed over many years. This method we use is similar to systematic combining, a method introduced by Dubois and Gadde (2002). "Systematic combining can be described as a nonlinear, path-dependent process of combining efforts with the ultimate objective of matching theory and reality" (Dubois and Gadde, 2002, p. 556). The advantage of this method is that "by constantly going 'back and forth' from one type of research activity to another and between empirical observations and theory, [the researcher] is able to expand his understanding of both theory and empirical phenomena" (Dubois and Gadde, 2002, p. 555).

Research findings

The findings are structured as follows: we first introduce Videoton, highlighting its development toward CM status. In this section we focus on Videoton's relationships with

two of its most important customers. Some information is included about the EMS industry in the region in order to facilitate understanding of the position of Videoton. Finally, we introduce what the owners and top managers think about strategy.

From OEM to CM

Videoton was founded in 1938 as a private company in the military engineering sector and was nationalized after the Second World War. Over a 40-year period it continued to operate as one of the most important and largest Hungarian state-run companies. After a change in profile it became a huge electronic consumer goods company, supplying a major part of the Hungarian market and engaging in significant export activity to neighboring socialist countries and to the USSR. Videoton's products were very popular not just in Hungary but also outside it; the brand was generally very well-known in socialist countries – certainly one of the strongest Hungarian brands of the times. Videoton existed in the minds of people as a large electronic consumer products manufacturer, although it produced a significant amount of military electronics as well. By the end of the 1980s, Videoton had considerable turnover and employed almost 20,000 people. However, just after the fall of communism in 1989 the until-then-state-run Videoton suffered a double blow. Due to free imports of Western and Japanese consumer electronics the company was exposed to the strong new winds of competition, its output become obsolete and unpopular and the company lost market share. With the disappearance of the Warsaw Pact[3] its market for military exports collapsed, while Hungary's new NATO membership also put an end to local military sales.

After the firing of several thousand people, but before the company's inevitable bankruptcy, Videoton was privatized (1991). The main owners of the company became the Hungarian Credit Bank, together with the present-day owners Gábor Széles, Péter Lakatos and Ottó Sinkó and Euroinvest Ltd., which had a share in ownership. In the following years the company's success was based on its suppliers and subcontracting activity. By 1996 the present-day owners of the company had become the sole owners after a management-buy-out process. The owners immediately ceased all nonprofitable activities, including most manufacturing, and carefully analyzed and then employed Videoton's old capabilities to rebuild a completely new industrial complex.

The process of developing from an OEM to a CM is illustrated through two of Videoton's important relationships which commenced in the 1990s (see Figure 3).

The first milestone in Videoton's transformation occurred when a subcontracting relationship with the company AFL Germany began in 1994. The company was a German subsidiary of the US-based company AFL. This relationship ultimately led to the foundation of VT AE Ltd. The company shipped automotive electronic controls, wiring harnesses, relays and distribution boxes as a subcontractor. One year later, production was moved from Ireland to Hungary together with supply, meaning that the former suppliers were replaced by Hungarians. AFL also transferred technical documentation and technology from Ireland to the factory installation in Hungary. The raw material, storage and continued delivery or return of processed products was guaranteed by the American partner.

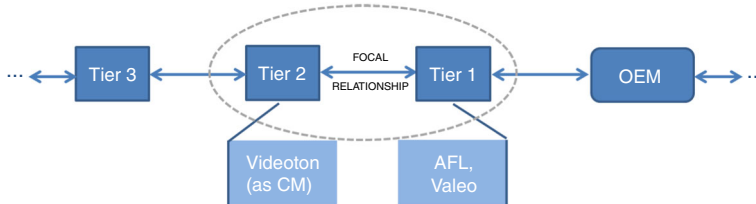
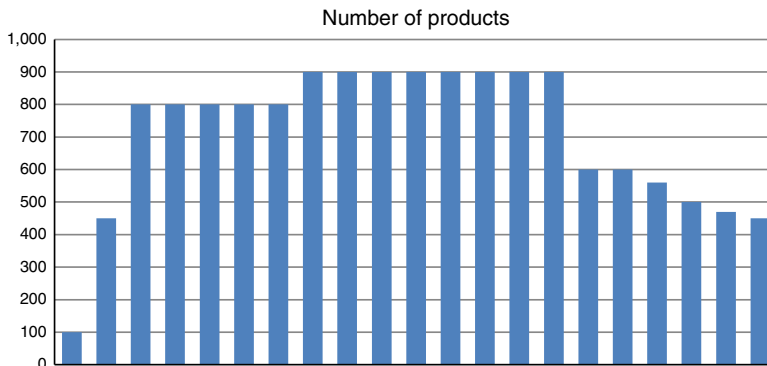


Figure 3.
Contract
manufacturing
relationships
under analysis

Source: Authors' own construction

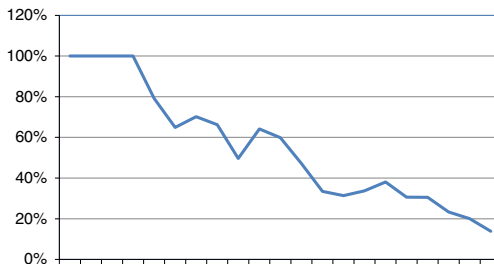
The former executive vice president of AFL who personally led this process from AFL's side remembers: "When we visited we found that the workforce in Hungary was very similar to the one in Mexico [the former site of production] with similar cost levels. We were introduced to Videoton during our first introduction to the country. Videoton had large amounts of manufacturing and very capable equipment and people. [...] within Videoton the management [Péter Lakatos, Mihály Tunkli, Zsuzsanna Lászlófalviné Gönczi] were very professional and had knowledge of manufacturing processes. Videoton helped with the integration of the transplants into their community, and they also helped greatly with training programs at technical schools."

In 1997, AFL was the sole customer of Videoton. At the beginning of the 2000s the relationship with AFL developed and up to 1,300 workers were then employed. However, as the result of having taken advantage of the opportunity for development and cooperation during that period, Videoton was engaged in a much wider range of activity than is typical of a pure subcontractor. Today, AFL is no longer a customer of Videoton due to restructuring activities and the fact that the business it used to do with Videoton has been taken over by Videoton's competitor Flextronics Ltd. (with 110 employees in 2015). Figures 4-6 illustrate the development of this relationship. During the main period of cooperation Videoton produced more than 800 different products per year for this customer (Figure 4). In 1994 (at the beginning) all of VT AE's employees were dedicated to this project, and turnover was exclusively derived from this relationship. As the number of activities increased and new customers appeared, turnover and headcount dedicated to AFL started to proportionately decrease (Figures 5 and 6).



Source: Company records (2015)

Figure 4. Quantity of products: VT AE-AFL relationship



Source: Company records (2015)

Figure 5. Proportion of VT AE employees dedicated to AFL project

In 1998, using experience from the business relationship described above, Videoton commenced its most important partnership with a French partner called Valeo.

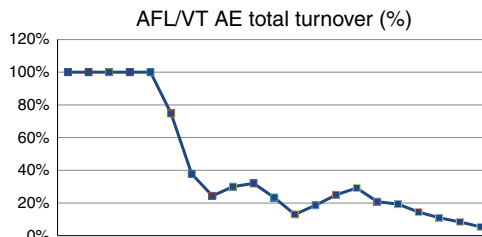
Risk management at the company is always associated with conscious and systematic decision making. The strategic perspective enhances understanding of how the company can take on more (or less) work, and evolve to take advantage of opportunities. As one of the co-CEOs stated about corporate culture: “The stronger the internal corporate culture, the more daring the company can or should be.” However, in 1998 the company lacked adequate capital and liquidity, thus financial risk peaked. Despite this, the company took action in the absence of specific customer demand because it genuinely believed in the potential for development. Out of this, the relationship with Valeo emerged. First of all, negotiations were held about switches and contacts, than about other electronics. The production efforts created a learning feedback loop for the companies.

Valeo management constantly changed throughout those times, while AFL’s leadership remained intact during the entire period of the development of the relationship. Accordingly, the contact person was always different at Valeo, while at AFL personal relationships remained stable. From the Videoton side, Mihály Tunkli, Vice President of Business Development, played a key role in the early stages of these relationships, while the managing director of VT AE Ltd. was – and in case of Valeo, still is – the primary actor.

This period of cooperation with Valeo clearly helped to transform Videoton, formerly a product manufacturer, into a highly developed CM in the EMS industry. This involved a major change not only in its mode of operating, but primarily in the culture and the identity of the company. Today, Valeo is one of the ten most important customers of Videoton[4]. There is a clear difference between pure subcontracting and EMS activity concerning which tasks partners are responsible for. Regarding pure subcontracting, Videoton as a supplier is responsible for the following issues: facility, regional know-how and contacts, production team, management team, quality control, maintenance and logistic services. The customer is responsible for quality assurance, technology, new product introduction, procurement, and sourcing. In its EMS activity Videoton is responsible for all of these issues, except for logistical services, the responsibility for which varies according to each relationship (company internal document, 2015).

One of the managers we interviewed said the following about the process of transformation: “[...] Videoton once produced computers, televisions, radios: something tangible which I could associate with the name Videoton. This kind of Videoton doesn’t exist anymore [...] so many times I’ve been asked: “what does Videoton do?” I say it’s a private company which started almost from zero in 1991 and has developed since then: it generates huge revenues and it makes a significant profit. Anyway, it is a big issue. And it employs so many people and it has put bread in the hands of many people. And they say “OK but what does Videoton do?” “They don’t know what Videoton does at all.”

Videoton’s transformation involved a shift from away from classic product-oriented industrial activity toward customer-oriented, service-based activity. The word “service” here has a special meaning as the main function of the company is, of course, still industrial,



Source: Company records (2015)

Figure 6.
Proportion of turnover
from VT AE-AFL
relationship

particularly with regard to electronics manufacturing. However, Videoton has also become organized and industrialized as a supplier of custom services for very different industrial companies. The services offered by Videoton are complex industrial production processes which are organized and tailor-made according to the specific requirements and expectations of industrial partners. One manager we interviewed said: "I always say that marketing and sales mean that I have to sell capability which doesn't exist, but which I will surely be able to develop when there is demand."

After ten years, 2012 was the sixth year of continuous growth for Videoton, by which time it had become Europe's 4th largest EMS company and 27th globally (data refer to 2013; Manufacturing Market Insider, 2014). The development of Videoton from OEM to highly developed CM is illustrated in Figure 7.

Today, the vertically integrated Videoton is the largest Hungarian industrial group in domestic private hands, offering manufacturing and related services to industrial firms. The company has nine locations in Hungary, one in Bulgaria (Stara Zagora) and one in Ukraine (Mukachevo). Videoton's stable financial background is ensured by its 260 million euro capital, its yearly increasing profit, a positive cash-flow situation and a reputation based on its successful heritage. Videoton is a professional, regionally integrated supplier and contract manufacturing company. The company is also a competent multi-commodity supplier of parts, assemblies and modules, a professional regional EMS provider with extended engineering services, a turn-key contract manufacturing partner for outsourcing and transfer projects and a complex service provider for the establishment and operation of industrial parks. Of its 14 manufacturing subsidiaries, eight subsidiaries are engaged in EMS-related activities.

The EMS industry in Central and Eastern Europe – the modern videoton

The electronics industry is one of the largest industrial sectors in Hungary, accounting for 22 percent of total manufacturing production (EUGO, 2015). The country is the largest

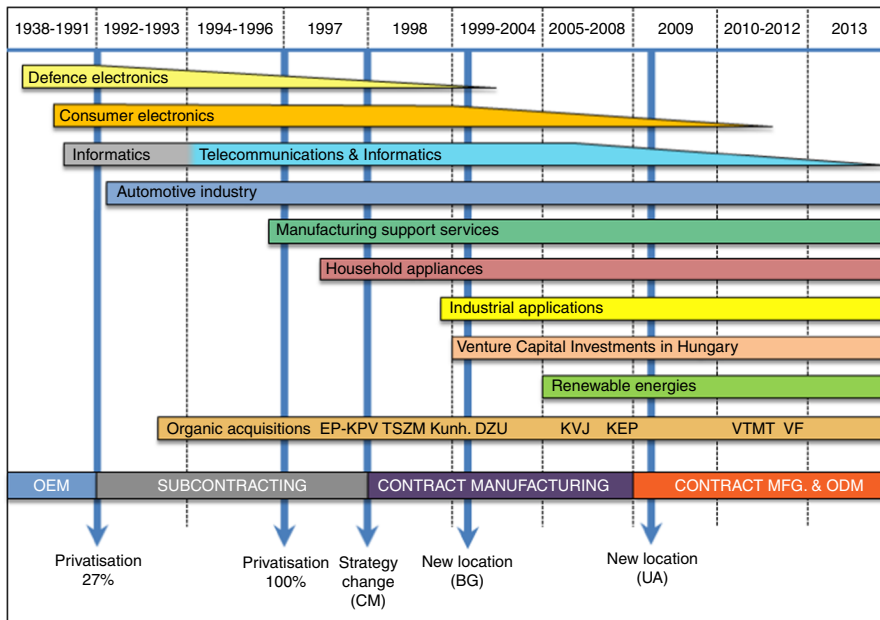


Figure 7.
Activity-based history
of Videoton

Source: Available at: <http://videoton.hu/index.php/en/videoton/history> (accessed March 23, 2015)

electronics producer in the CEE region, accounting for 26 percent of all regional production, with 112,000 employees. In addition to several prestigious OEMs, six out of the top ten European EMS providers are present in Hungary (Jabil, Flextronics, Foxconn, Sanmina, Zollner and Videoton). Some of the companies such as National Instruments and Jabil are also involved in R&D activities (Figure 8).

According to the vice president of business development, Videoton’s main competitors – generally characterized as medium-sized companies with over 100 million EUR turnover – are the following: Zollner Elektronik AG (Germany), Iskra MIS (Slovenia), EPIK Elektronik Asembli EOOD (Bulgaria) and Estil Electronics OÜ (Estonia). Videoton’s biggest competitor, Zollner, has a very similar profile to Videoton; moreover, it has numerous subsidiaries around the world, including a Hungarian subsidiary in the city of Vác. In 2008, Zollner had estimated sales from EMS activities of 640 million euros. In 2009 Zollner established a US Technical Customer and Sales Service facility in Northern Virginia to serve existing and potential customers (REED Electronics Research, 2009).

Thanks to Videoton’s effective way of operating, they have developed and remained stable over the past 23 years. Among European CMs Videoton is ranked in the top three in terms of revenue, number of employees and efficiency, while the speed of growth of other companies in the related sector does not come close to that of Videoton (growth is occurring with each activity and in all market segments of Videoton). Videoton employed 9,200 people in 2014, an increase of nearly 1,300 on the previous year. The number of employees engaged in EMS-related tasks at the end of calendar year 2014 was 7,800.

The perspective of Videoton’s owners and directors about strategy

Our research findings show that the style of company leadership, together with charismatic personalities, play an important role in the company’s success. This proposition is supported by the former executive vice president of Videoton’s major partner, AFL: “Business is successful only if the top people have a personal relationship with their partners/suppliers. It is important to manage the processes and not the people. People are always managed by local residents.”

The current board of directors at Videoton are also the owners. They include Gábor Széles (4,705 percent ownership share), Péter Lakatos (26,475 percent) and Ottó Sinkó (26,475 percent).

The decline of Videoton during the 1990s was halted through the process of privatization led by Gábor Széles in 1991. As the president-CEO of Videoton he successfully reorganized

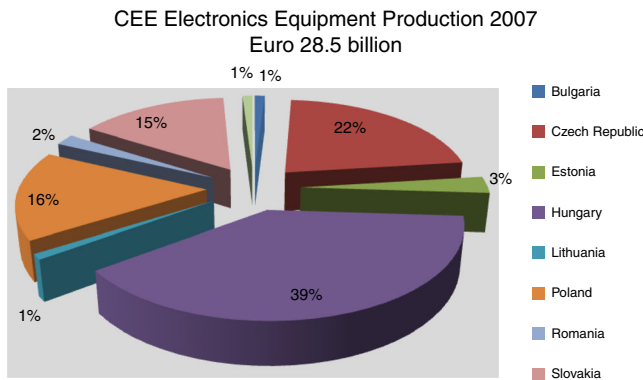


Figure 8.
CEE electronics
production by
country 2007

Source: REED Electronics Research (2009)

the biggest company in the Hungarian electronics industry and developed new forms of co-operation with the most significant multinational companies.

Péter Lakatos also joined the shareholders of Videoton Holding Zrt. in 1991 and remains a co-CEO and a member of the board of directors. Besides the usual executive tasks that he carries out together with Ottó Sinkó, his activity focuses on business development and supporting the operations of the manufacturing companies.

Mr Lakatos states: "I am extremely lucky because I was always able to work with people with whom I could share managerial tasks, and who enjoy the types of activities for which I have low affinity and/or patience. The goal is that the company should be transparent, and on the one hand that our employees should have the maximum amount of opportunity, while on the other they should also be held to account."

Since December 1991 (when the company was privatized) Ottó Sinkó has been an owner-manager and a member of the board of directors of Videoton Holding Zrt. Since 1996 he has dealt with the operative and strategic management of Videoton as a co-CEO.

Mr Sinkó says: "One of the greatest strengths of Videoton is that not one but two leaders are at the helm, a fact which ensures consistent company development. We discuss everything and we're also each other's opponents. Peter thinks very fast; he's ahead of partners. I try to identify the relevant business driving forces, interests and risks, to specify the optimum combination [...]. Our business policy is conservative. We do what is demanded of us – this is a kind of opportunism which is a conscious and crucial part of our strategy. We adjust to opportunities. Fully transparent and simple, minimizing risk, a high level of financial stability: these are the elements of our business culture."

Mr Lakatos and Mr Sinkó manage Videoton's member companies together (cca. 15 Limited Liability Companies and ten joint ventures). Mr Lakatos is primarily responsible for handling on-going businesses, customer-supplier relations, business development and pricing. Mr Sinkó has primary control of financial management, treasury decisions and wealth and property utilization, organizational and technical development and the acquisition of innovative companies. Strategy, investment and acquisition-related decisions are made as a team, while HR management and inspections (based on the demands of the controlling system) are undertaken together with responsible individuals from the relevant fields.

The CEOs state the following about Videoton's strategy:

The business model is for understanding what the customer wants, what he wants to see, what is important to him, what the customer will or will not chip in on. So the business model puts these things together. Then, when we have more and more models, we adapt the next logical one from a combination of different business models [...]. The strategy of customers is constantly changing, and they can also adapt. It is important to operate rationally and to be able to respond flexibly to challenges. It is also important to have capital for investing, and to understand at all times in which direction the world is moving, and, along with this, to be able to switch direction at any time.

We can consider strategy to be a way of looking at a particular business. Who is the customer? What is his position? What is the component? What is it built into? Who are the final customers? Why will they buy it?

We want to remain a regional manufacturer. We cry and laugh together with the European processing industry. We are heavily diversified and closely interwoven with several industries and technologies and with a large number of customers. Due to the size of the firm and the size of the country (Hungary) we cannot have a more focused strategy – it would not be appropriate for this limited market.

During the reconstruction process of the at-that-time-still-state-owned Videoton, establishment of the first subsidiary companies of the group took place under Mihály Tunkli's – the vice president of business development – management. From 1993 onwards he participated in establishing the contract manufacturing branch of Videoton. He was also

responsible for establishing, shaping the conditions, planning opportunities, conflict management and development of Videoton's relationship with Valeo. His thoughts about Videoton's strategy are the following: "When somebody asks me what Videoton's strategy actually is, I simply say that we are trying to move forward with the things we feel that we are at home with, or at home with on some level, and with things that we can find partners who are willing to help us out with, and with whom we know that we can build and grow together [...]"

The Director of International Projects and Managing Director of VT Metal Ltd. (a machining center) is Zoltán Horváth, who has managed Videoton's ventures in Bulgaria since 2000. Mr Horváth maintains operative control of the company group's mechanical businesses with special regard to the establishment and development of business relationships. About owner and employment commitment, he states: "I think understanding what is good for employees at the company is a very important issue. The good thing is that if someone has ideas, desires or problems, then it is sure that the doors to the two CEOs' offices are not closed. This is due to the fact that the two CEOs feel the responsibility for their total ownership of this company and they consider employees to be colleagues, which is very rare."

Discussion

In this discussion section we compare findings from the Videoton case study with findings from the literature we have introduced as theoretical background. First, we follow the logic of the differentiation between the internal, relational and network level, as summarized in Table II. We then present an illustration of the business model of Videoton using the research framework presented earlier in this paper (Figure 2).

At the internal level our research findings distinguished the characteristics of a successful CM that were also identified by Hu (2011). Due to the resources of the highly skilled and knowledgeable personnel that were earlier built up, Videoton was able to react to demands from new customers. Its experience in the military electronics industry helped the firm comply with the strict rules about manufacturing and quality assurance that apply to the automotive industry. Flexibility is an important issue that emerges from the CEOs' thoughts about strategy. Thanks to Videoton's eleven locations – including the result of acquisitions in Bulgaria and in Ukraine – there are no capacity problems with producing high-quality products in suitable amounts. Former and still-existing business relationships with AFL and Valeo have helped make Videoton a suitable, reliable partner. The authenticity of Videoton is reflected in the communications of the managers of these partner companies. The former executive vice president of AFL emphasized how Videoton's significant capabilities (substantial manufacturing capacity, appropriate equipment, very capable people and Videoton's knowledge of manufacturing processes) existed at the beginning of their relationship.

"Capabilities can be understood as the know-how that is retained, maintained and developed by an organization over time" (Mason and Spring, 2011, p. 1035). In their detailed analysis of the 70-year history of Videoton, Mandják *et al.* (2014) identified "network-bridge-over capabilities" based on key business relationships, technologies, organizational learning and resources. For the research described in this paper we narrowed our analysis to understanding the resources which were used and created in Videoton's process of becoming a CM.

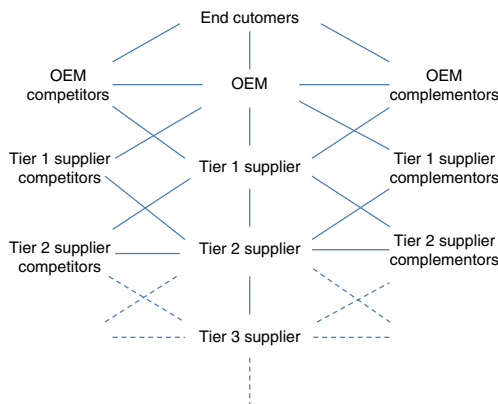
Our research findings support the contention that, although Videoton is a large firm with more than 9,000 employees, their organizational culture is closer to that typically found in an SME. Three factors – an active and clear leadership style, strong organizational culture and employee commitment to work – which have been theorized to characterise continuously growing businesses (Achtenhagen *et al.*, 2013) can be identified at Videoton. The owners,

who are also the CEOs, take part in everyday management activities. The financial performance of the last ten years indicates that the leadership activities of the different personalities are effective. Signs of a strong organizational culture include stability, a shared heritage and major business achievements right from the first period of subcontracting through to the current highly developed CM status. The openness of the CEOs toward employees sustains their commitment to their jobs.

In contrasting the research findings about Videoton with the strategies of CMs identified by Sodhi and Tang (2013) we should note that Videoton’s direct customers are Tier 1 suppliers, not OEMs. Figure 1, which illustrates the value net of CMs and OEMs, has been adapted to the context of the automotive industry; see Figure 9.

Hence, in this part of the discussion we use the general word “customers” instead of OEMs. Contrasting the three types of strategies of Chinese CMs (Table I) with our research findings, we conclude the following: although Videoton has certainly developed competences throughout its many years of experience as a CM, it is not involved in competing with its customers (Strategy 3). On the contrary, at Videoton we could identify examples of Strategy 1 and Strategy 2 tactics. Our research findings indicate the existence of Strategy 1: use knowledge to provide more services, offer more services to current customers, and become more flexible with other tactics. Strategy 2 appears in Videoton’s use of knowledge to offer products and services to new customers and develop new capabilities for new customers. From the interviews with the CEOs it became clear that Videoton’s strategy is better described as reactive than proactive. The company invests only when this is required by customer demand, and they continuously adapt to opportunities.

However, these internal resources could not have been engaged without partners. As Videoton’s vice president of business development acknowledges, a company grows and develops together with its customers. Through its partnerships – first with AFL, then with Valeo – Videoton built and developed competences. The development of customer relationships played a crucial role in the creation of strategy. The question is: what enabled the development of relationships with partners? The three layers of business relationships – activities, resources and actors – should be examined in the case of Videoton’s relationship with AFL. After 1994, when the first experiences with subcontracting turned out to be positive, Videoton’s palette of activities grew. When Videoton started not only supplying but also producing (the relocation of Videoton’s early manufacturing activities from Ireland to Hungary is described in the section from OEM to CM), the position of Videoton changed: it was able to



Source: Authors’ construction based on Sodhi and Tang (2013)

Figure 9. Value net for the automotive industry

enlarge its network with Hungarian suppliers and further develop. Resource development also occurred. The existing resource base – experience with military electronics and highly skilled employees – helped the firm to build new customer relationships. In terms of actors, the vice president of business development at Videoton played an important role in all the subcontracting and later contract manufacturing relationships that were established after the company's privatization. Actors on the customers' side were also enthusiastic and committed to building relationship with Videoton.

The managers' view about strategy – that it is based on demand – can be interpreted as a relational view, since they mean demand not just generally, but demand for particular businesses. They consider CM status itself to be a strategy, since, as seen in Figure 7, a change in strategy is indicated in Videoton's move away from subcontracting to contract manufacturing activity after 1998. This shift required important changes in activities, as we saw in the description of Videoton provided earlier. The strategy of Videoton can be understood as strategizing – the concept is introduced in the theoretical section of the paper – instead, since it involved (and still does) the practice of strategy rather than the implementation of a planned, deliberate strategy. The business model of Videoton – based on the ideas of one of the CEOs – may be considered to be “the translation of customer desires.”

Figure 10 summarizes the research findings based on the empirical components of the case study included in our research framework. As “success for a business actor is time dependent, relationship specific and determined by the way that the actor co-evolves with others” (Håkansson *et al.*, 2009, p. 157), by applying the relational view we were able to illustrate the business model as it concerns the Videoton-AFL and Videoton-Valeo relationships. The time dimension is also built in, because what Videoton learned from their relationship with AFL was capitalized on in their relationship with Valeo. Empirical research confirms that Videoton has become a successful CM, according to its partners.

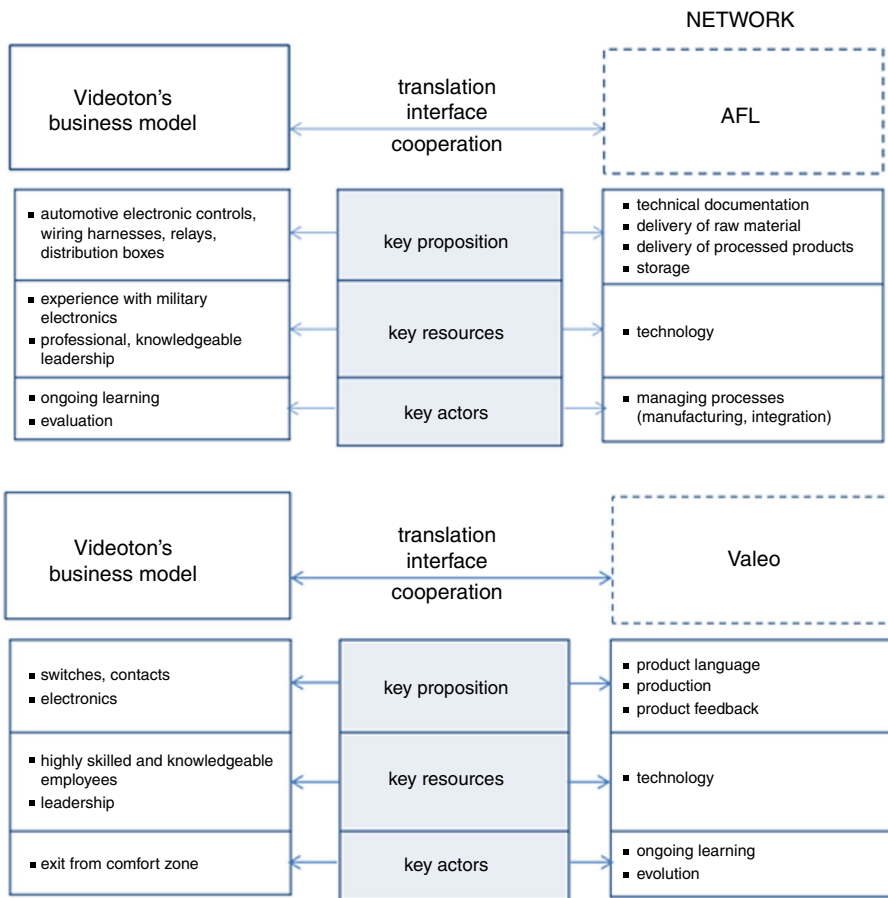
A network perspective was only partially identifiable through the case study, although it is not negligible. The position of the customer in the network is one issue of particular relevance. The fact that Videoton works for Flextronics on business that it originally obtained from AFL is an example of co-opetition. Although Videoton is a regional player in CEE, its most important competitor is the German company Zollner. These companies clearly have different positions in the EMS network which influence their opportunities to procure business.

In the interviews with the top management the word “opportunity” often appeared in connection with strategy. Opportunity can be seen in our model in the following way: it appears in the attempts to harmonize key propositions, key resources and key actors (the elements of the square in the middle of Figure 10) between the CM and its customers, taking the network of the firms into consideration.

If we can accept that having CM status is itself a business model (Chan and Chung, 2002), and that a business model is an emergent phenomenon (Mason and Spring, 2011), we may also logically claim that reaching the status of a CM is only a waypoint in the development of a business model. Chinese CMs have already proved this statement. From Figure 6 it can be seen that Videoton is already on the move from a CM toward an original design manufacturer (ODM).

Conclusions

This paper investigates the strategy of CMs. First, the authors introduce the term contract manufacturing in the relevant literature. Strategy is analyzed using the concepts of strategizing and business models from the strategic management and the IMP-related literature. We put this topic into a Hungarian context by presenting and analyzing the case of Videoton. Our research framework represents the relational view of strategy, employing the concept of the business model. In Figure 10, the key (value) proposition, key resources and key activities as elements of the business model are highlighted. It is important to note



Source: Authors' own construction

Figure 10. Business model of Videoton based on two customer relationships

that these elements should be handled when investigating the relationship between the partners, which is why we incorporated them into our analysis of Videoton's relationships with two of its customers. Accordingly, this paper is an example of how a theoretical contribution can emerge from a case study.

The authors formulate three managerial implications. First, our research findings show that the success of a company cannot be explained solely by referring to firm-level activities, (that is, by the internal context of strategy). Positive financial and other indicators (number of employees, amount of products) for VT AE and Videoton were achieved only through collaboration with partners. Second, the case of Videoton shows that their success came – and continues to come – from their strategizing activity: i.e. strategy-as-practice, and is not the result of a planned, deliberate strategy. Third, the case of Videoton highlights the dynamics of the business model; namely, how the company went and is still developing from an OEM to a CM, and nowadays is moving from CM to ODM status. Videoton's example could be a model for other firms.

The lack of analysis of Videoton's network may limit the validity of our research findings. As Baraldi *et al.* (2007) has indicated, more investigation into strategizing using a network perspective is required. Other research could potentially involve studying the

performance of business models using a relational and a network perspective. Ehret *et al.* (2013) suggests using contracting research for this purpose.

Based on our paper, a wider study into automotive suppliers in Hungary which examines their business models on a relational level (Figure 10) is proposed.

Notes

1. The terms Tier 1, 2, 3, ... are common in the automobile industry. Tier 1 companies are direct suppliers to OEMs. Tier 2 companies are the key suppliers to Tier 1 suppliers, without supplying a product directly to OEM companies. Tier 3 companies supply tier two firms. Tier 4 companies are the providers of basic raw materials, such as steel and glass, to higher tier suppliers. Source: <http://smallbusiness.chron.com/difference-between-tier-1-tier-2-companies-25430.html>
2. "Whereby firms co-operate and compete simultaneously" (Sodhi and Tang, 2013, p. 16).
3. The Warsaw Treaty of Friendship, Cooperation and Mutual Assistance: a military alliance that existed between the Soviet Union, Poland, East Germany, Czecho-Slovakia, Hungary, Romania, Bulgaria and Albania from 1955 to 1991.
4. The exact contribution of Valeo to Videoton's total revenue is confidential business information.

References

- Achtenhagen, L., Melin, L. and Naldi, L. (2013), "Dynamics of business models – strategizing, critical capabilities and activities for sustained value creation", *Long Range Planning*, Vol. 46 No. 6, pp. 427-442.
- Araujo, L., Dubois, A. and Gadde, L.-E. (1999), "Managing interfaces with suppliers", *Industrial Marketing Management*, Vol. 28 No. 5, pp. 497-506.
- Baraldi, E., Brennan, R., Harrison, D., Tunisini, A. and Zolkiewski, J. (2007), "Strategic thinking and the IMP approach: a comparative analysis", *Industrial Marketing Management*, Vol. 36 No. 7, pp. 879-894.
- Benson-Rea, M. (2007), "Integrating strategy and relationship concepts: how business relationships shape strategy", *The 23rd IMP Conference, Manchester*, pp. 1-21.
- Bertodo, R. (1991), "The role of suppliers in implementing a strategic vision", *Long Range Planning*, Vol. 24 No. 3, pp. 40-48.
- Borgström, B. and Hertz, S. (2008), "Strategizing in industrial networks – fallacies of customer order based production", *The 24th IMP Conference, Uppsala*, pp. 1-18.
- Chan, M.F.S. and Chung, W.W.C. (2002), "A framework to develop an enterprise information portal for contract manufacturing", *International Journal of Production Economics*, Vol. 75 Nos 1-2, pp. 113-126.
- Coombes, Ph.H. and Nicholson, J.D. (2013), "Business models and their relationship with marketing: a systematic literature review", *Industrial Marketing Management*, Vol. 42 No. 5, pp. 656-664.
- Dubois, A. and Araujo, L. (2004), "Research methods in industrial marketing studies", in Håkansson, H., Harrison, D. and Waluszewski, A. (Eds), *Rethinking Marketing – Developing a New Understanding of Markets*, John Wiley and Sons, Chichester, pp. 99-227.
- Dubois, A. and Gadde, L.-E. (2002), "Systematic combining: an abductive approach to case research", *Journal of Business Research*, Vol. 55 No. 7, pp. 553-560.
- Dyer, W.G. and Wilkins, A.L. (1991), "Better stories, not better constructs, to generate better theory: a rejoinder to Eisenhardt", *Academy of Management Review*, Vol. 16 No. 3, pp. 613-619.
- Ehret, M., Kashyap, V. and Wirtz, J. (2013), "Business models: impact on business markets and opportunities for marketing research", *Industrial Marketing Management*, Vol. 42 No. 5, pp. 649-655.
- Eisenhardt, K.M. (1989), "Building theories from case study research", *Academy of Management Review*, Vol. 14 No. 4, pp. 532-550.
- Eisenhardt, K.M. (1991), "Better stories and better constructs: the case for rigor and comparative logic", *Academy of Management Review*, Vol. 16 No. 3, pp. 620-627.

- Eisenhardt, K.M. and Graebner, M.E. (2007), "Theory building from cases: opportunities and challenges", *Academy of Management Journal*, Vol. 50 No. 1, pp. 25-32.
- EUGO Hungary (2015), Key facts about Hungary – Main Industries, available at: <http://eugo.gov.hu/key-facts-about-hungary/main-industries> (accessed June 12, 2015).
- Ford, D. and Mouzas, S. (2008), "Is there any hope? The idea of strategy in business networks", *Australasian Marketing Journal*, Vol. 16 No. 1, pp. 64-78.
- Freytag, P.V. and Clarke, A.H. (2012), "Understanding change in industry and business models – on the changing role of advertising agencies", *The 28th IMP Conference, Rome*, pp. 1-17.
- Gadde, L.E. (2014), "Strategizing at the boundaries of firms", *The IMP Journal*, Vol. 8 No. 2, pp. 51-63.
- Gadde, L.E., Huemer, L. and Håkansson, H. (2003), "Strategizing in industrial networks", *Industrial Marketing Management*, Vol. 32 No. 5, pp. 357-364.
- Gelei, A. (2012), "Capability-based value creation in Hungarian automotive supply chains", *The IMP Journal*, Vol. 6 No. 2, pp. 135-153.
- Gulati, R., Nohria, N. and Zaheer, A. (2000), "Strategic networks", *Strategic Management Journal*, Vol. 21 No. 3, pp. 203-215.
- Håkansson, H. and Snehota, I. (2006), "No business is an island: the network concept of business strategy", *Scandinavian Journal of Management*, Vol. 22 No. 3, pp. 256-270.
- Håkansson, H. (Ed.) (1982), *International Marketing and Purchasing of Industrial Goods: An Interaction Approach*, John Wiley and Sons, New York, NY.
- Håkansson, H. and Ford, D. (2002), "How should companies interact in business networks?", *Journal of Business Research*, Vol. 55 No. 2, pp. 133-139.
- Håkansson, H., Ford, D., Gadde, L.-E., Snehota, I. and Waluszewski, A. (2009), *Business in Networks*, John Wiley & Sons, Chichester.
- Håkansson, H. and Snehota, I. (Eds) (1995), *Developing Relationships in Business Networks*, Routledge, London.
- Hamel, G. (1996), "Strategy as revolution", *Harvard Business Review*, July-August, pp. 69-82.
- Han, C.h., Porterfield, T. and Li, X. (2012), "Impact of industry competition on contract manufacturing: an empirical study of US manufacturers", *International Journal of Production Economics*, Vol. 138 No. 1, pp. 159-169.
- Hartmann, E., Gemünden, H.G., Oppel, K. and Lingenfelder, M. (2001), "Electronic B2B marketplaces – impact on B2B transactions and relationships?", *17th IMP-Conference, Oslo*, pp. 1-13.
- Helper, S. (1991), "Strategy and irreversibility in supplier relations: the case of the US automobile industry", *The Business History Review*, Vol. 65 No. 4, pp. 781-824.
- Holmen, E., Håkansson, H. and Pedersen, A.C. (2006), "How do suppliers react to a customer's supply network initiative?", *The 22nd IMP Conference, Milan*, pp. 1-20.
- Hu, G. (2011), "Strategies for outsourcing peptide contract manufacturing", *BioProcessing Journal*, Vol. 10 No. 2, pp. 14-16.
- Hulthén, K. and Torvatn, T. (2014), "'Footprints of strategy' investigating purchasing strategies in a longitudinal case", *The IMP Journal*, Vol. 8 No. 3, pp. 120-132.
- Johnson, G., Langley, A., Melin, L. and Whittington, R. (2007), *Strategy as Practice – Research Directions and Resources*, Cambridge University Press, New York, NY.
- Kim, B. (2003), "Dynamic outsourcing to contract manufacturers with different capabilities of reducing the supply cost", *International Journal of Production Economics*, Vol. 86 No. 1, pp. 63-80.
- Kim, B., Leung, J.M.Y., Park, K.T., Zhang, G. and Lee, S. (2002), "Configuring a manufacturing firm's supply network with multiple suppliers", *IIE Transactions*, Vol. 34 No. 8, pp. 663-677.
- LaPlaca, P.J. (2013), "Letter from the Editor", *Industrial Marketing Management*, Vol. 42 No. 5, pp. 645-648.
- Lee, H.L. and Tang, C.S. (1998), "Managing supply chains with contract manufacturing", in Lee, H.L. and Ng, S.M. (Eds), *Global Supply Chain and Technology Management*, Production and Operations Management Society, Miami, pp. 141-151.

- Magretta, J. (2002), "Why business models matter", *Harvard Business Review*, May, pp. 86-92.
- Mandják, T., Szalkai, Zs., Neumann-Bódi, E., Magyar, M. and Simon, J. (2014), "Phoenix in the network: the genesis of a Hungarian industrial company", *The IMP Journal*, Vol. 8 No. 3, pp. 107-119.
- Manufacturing Market Insider (2014), *MMI Top 50 EMS Providers*, available at: <http://mfgmkt.com/mmi-top-50.html> (accessed March 23, 2015).
- Mason, K. (2008), "Markets, business models and the growth of the firm", *24th IMP-Conference, Uppsala*, pp. 1-10.
- Mason, K. and Spring, M. (2011), "The sites and practices of business models", *Industrial Marketing Management*, Vol. 40 No. 6, pp. 1032-1041.
- Morris, M., Schindehutte, M. and Allen, J. (2005), "The entrepreneur's business model: toward a unified perspective", *Journal of Business Research*, Vol. 58 No. 6, pp. 726-735.
- Nøkkentved, Ch. (2007), "Enabling supply networks with collaborative information infrastructures. An empirical investigation of business model innovation in supplier relationship management", PhD dissertation, Copenhagen Business School, Copenhagen, pp. 1-351.
- Ostenwalder, Z., Pigneur, Y. and Tucci, C.L. (2005), "Clarifying business models: origins, present and future of the concept", *Communications of the Association for Information Systems*, Vol. 16, Article No. 1, May 15.
- Porter, M.E. (1980), *Competitive Strategy*, Free Press, New York, NY.
- REED Electronics Research (2009), "The European Electronic Manufacturing Services Industry 2008-2013, A Strategic Study of the European EMS Industry", REED Electronics Research, Wantage.
- Ritter, Th. and Ford, D. (2004), "Interactions between suppliers and customers in business markets", in Håkansson, H., Harrison, D. and Waluszewski, A. (Eds) *Rethinking Marketing – Developing a New Understanding of Markets*, John Wiley and Sons, Chichester, pp. 99-116.
- Seddon, P.B., Lewis, G.P., Freeman, P. and Shanks, G. (2004), "The case for viewing business models as abstractions of strategy", *Communications of the Association for Information Systems*, Vol. 13, Article No. 25.
- Sodhi, M.S. and Tang, Ch.S. (2013), "Strategies and tactics of Chinese contract manufacturers and western OEMs (2001-2011)", *International Journal of Production Economics*, Vol. 146 No. 1, pp. 14-24.
- Sousa, F.J. (2014), "Boundary decisions of the firm: make, buy, cooperate", *The IMP Journal*, Vol. 8 No. 1, pp. 13-21.
- Spector, Y. (2011), "Theory of constraint methodology where the constraint is the business model", *International Journal of Production Research*, Vol. 49 No. 11, pp. 3387-3394.
- Teece, D.J. (2010), "Business models, business strategy and innovation", *Long Range Planning*, Vol. 43 Nos 2-3, pp. 172-194.
- Whittington, R. (1996), "Strategy as practice", *Long Range Planning*, Vol. 29 No. 5, pp. 731-735.
- Wilson, D.T. and Chen, H.-Y. (2000), "Online auctions: are relationships doomed?", *16th IMP-Conference, Bath*, pp. 1-10.

Web references

- www.videoton.hu/index.php/en/videoton/history (accessed March 23, 2015).
- www.videoton.hu/downloads/videoton_general_hun.pdf (accessed October 15, 2015).

Corresponding author

Zsuzsanna Szalkai can be contacted at: szalkaizs@mvt.bme.hu

For instructions on how to order reprints of this article, please visit our website:

www.emeraldgroupublishing.com/licensing/reprints.htm

Or contact us for further details: permissions@emeraldinsight.com

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.