The Emergence of a CEE-Regional Multinational
– A narrative of the MOL Group plc. –

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This article describes the transition of MOL, the Hungarian Oil and Gas Company, from a state-owned enterprise to a privately owned regional-multinational company and outlines its growth to become a leading player in the CEE region. It also illustrates how the company went through the internal restructuring process before and during its acquisition period. Over three distinct development phases it then emerged as a new species in the CEE, as a "regional multinational". The case also gives valuable strategic insights into the oil industry of the majority of CEE countries.

Der Artikel beschreibt den Übergang der Ungarischen Öl- und Gasgesellschaft MOL von dem ehemaligen Staatsunternehmen zu einem modernen und einem der ersten über die Landesgrenzen reichenden Konzern in Zentral- und Osteuropa. Es wird auch geschildert welche internen Restrukturierungsmaßnahmen vor und während der Aufkaufstätigkeit durchgeführt wurden. Die neue Spezies des „regional multinational", also des „Regionalen-Multis", entwickelte sich in diesem Fall in drei Hauptphasen. Außerdem vermittelt der Beitrag wertvolle, strategische Einsichten in das Funktionieren der Ölindustrie in den meisten der Länder Zentral- und Osteuropas.

Key words: International Business, Strategic Management, Regional Expansion in CEE, Cross-Cultural Management, Change Management

The Oil Companies in the CEE-Region

During the socialist regime in the CEE countries[1] governments strived to make their own refineries sovereign and the oil industry as a whole was considered a priority. This resulted in independent national oil companies that focused on the entire value chain and were far from meeting any efficiency benchmark when compared to their "western" counterparts. Firstly they were not able and secondly they did not have to. The regional oil industry was inefficient in design. None of the countries were connected via pipelines. The infrastructure had a hub-and-spoke design ensuring dependence on the former Soviet Union. Each country had separate deals with Moscow, the prices were not based on market drivers, but rather crude oil was the clearing currency between Moscow and the COMECOM countries. On the other hand fuel prices were controlled by the states and were kept artificially low before the price deregulations in the early 1990's.

Regardless of common past, the oil companies in CEE countries had different vertical integration structures. In some countries the oil companies were separate entities, while in others even the energy and gas sectors were integrated with the oil sector.

Throughout the years these countries had started transitions in different times due to various political or economical reasons and therefore their oil industry restructuring and privatizing was at different stages at a certain point in time. After the shifts to the market economy, many state owned later privatized oil companies have proved that they cannot stand on their own feet and be competitive in the international markets. A number of these companies were poorly managed that has led to high debts and obsolete technologies. They had two choices: either to attain financial resources to strengthen the domestic presence, restructure the companies and improve efficiency or do so with external help – through acquisition. This kind of environment laid grounds for a consolidation trend in the sector throughout the CEE region.

Privatization in some countries still has not finished since it is highly influenced by the political situation in the given country.

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[1]CEE countries: Slovakia, the Czech Republic, Hungary Romania, Bulgaria, Poland, and the former Yugoslavian countries and for our context also Austria.

The MOL Company

The Hungarian government founded MOL plc., the Hungarian Oil and Gas Company, in 1991 as a successor of OKGT (National Crude Oil and Gas Trust). Previously, OKGT contained 29 oil and gas enterprises in Hungary, but through careful selection only nine were chosen to comprise MOL. The Government owned 100% of the MOL shares till 1993 when it sold 8% of the shares. MOL was the first national oil and gas company in Central Europe to be privatized. Both international and domestic investors acquired MOL shares. The company's shares have been listed on the Budapest, Luxembourg and Warsaw Stock Exchanges and the DR's are traded on the Pink Sheet in the US and London's International Order Book. In 2007 MOL together with OTP Bank and Magyar Telekom make up over 75% of Hungarian Stock Exchange Index BUX.

As a result of the privatization wave of the Hungarian state owned enterprises the Government had gradually decreased its stake in MOL, although it has retained the Golden Share that allowed the state to veto any major strategic change (like a merger or acquisition) that the board of directors approved. The state had high influence on MOL's corporate life, as this oil company became the biggest taxpayer and one of the largest employers in Hungary. The Golden Share of the state was revoked when Hungary entered the European Union and had to harmonize its laws accordingly, but the state influence can still be seen in MOL's operations.

MOL Growth Phases

After its foundation MOL has gone through significant changes that can be grouped into three distinctive stages.

1. *Preparation for privatization (≈1991-1995)*
2. *Stabilization after privatization (≈1995-1999)*
3. *Transformation to become a regional multinational (≈1999-2007)*

Preparation for privatization (≈1991-1995)

This period is marked by successful integration of the 9 OKGT firms and creation of MOL from scratch. Although today it seems obvious to manage and restructure asset portfolio to meet the challenges arising from changing external environment, this was not as evident in an economy that was disconnected from real market forces for more than 40 years. It was also a tough decision as the fresh CEE economies as well as the Hungarian government were hungry for cash and therefore particularly eager to privatize for “hard currency” offered by western investors. The Hungarian oil industry was in a special situation. As a portfolio it was rather inefficient, thus there was little value in privatizing all of its assets. On the other hand there were some extremely valuable assets in the group, too. The high-pressure pipeline system and the Duna Refinery were clearly comparable with any European operations and they did not require major upgrading investments to deliver instant profit. Also the human asset side of the Hungarian industry was highly valued by the international oil community. The energy sector was always a highly profitable industry, therefore it could afford to acquire, maintain and develop the best available professionals. Between 1991 and 1994 various European and global energy companies demonstrated intensive interest to acquire these assets. Despite the hunger for cash and foreign partnerships, “cherry-picking” was not supported and MOL was created as an independent and integrated oil and gas company. From this very early stage MOL was assigned a “flagship” role and was briefed to meet the highest expectations.

The retail side of the business was handled slightly differently. Only two thirds of the filling station networks were assigned to the newly established company. The retailing market as well as retail pricing was liberalized. The best retail outlets of MOL’s predecessor companies were distributed among the major international oil companies. The missing retailing skills were partially acquired through partnerships. Already from 1989 MOL’s predecessor companies entered into Joint Ventures with the major retail operators. The Hungarian party was delivering the real estate and handling bureaucracy, while the foreign partners were bringing their latest retail design and retail operation expertise. A clear win-win partnership. The international companies managed to secure the best Budapest locations and to cut through the labyrinth of obtaining operating permits. On the other hand, while MOL was responsible for operating the filling stations, they became familiar with the latest technology and retailing standards. These acquired new skills were so highly valued

that MOL felt compensated for the loss of significant market share especially in the Budapest region. Fuel retailing itself is usually not the highest profit margin within an integrated oil company, but it has an inevitable role of securing refining output and thus supporting refinery utilization. Although this tradeoff of market share for retailing skills weakened the position of MOL in the short run, it is regarded as a key contributor to the future growth.

Restructuring the asset portfolio and laying the foundations of the new company was only part of the strategic decision to keep the Hungarian oil industry independent and to enter the highest league to become a fully integrated oil company. Assets are important but they need to be operated and properly managed. The organization structure and the governance principles are equally important. Though already in this early stage the most important reorganization decisions were made meeting the internationally accepted efficiency, quality benchmarks were yet to be delivered.

As a result of the transition that Hungary has started, the fuel market was liberalized. MOL's priority became the stabilization of the domestic market share.

Major Challenges	Corporate Strategy	Critical Success Factors
• Little experience in competitive retailing • Losing market share in home market to Western new entrants • Restructuring asset base to meet new demands of financial investors • State control and conflicts between corporate and government interests	• Integration of nine predecessor companies' operations and organizational realities into one corporation	• Acquiring new skills and knowledge – in particular in retail business

Table 1: Phase I – Preparation for privatization (1991-1995)

Stabilization after privatization (≈1995-1999)

MOL's privatization took place over several stages in the early 1990s. In 1995, the Hungarian government passed a new Privatization Act. MOL reincorporated as a limited liability company and listed its shares on the Budapest Stock Exchange that

year, with a float of some 67 percent of its shares. The Hungarian government retained control of the remainder. Political influence remained significant over the years mainly due to strategic importance as gas pricing was not fully liberalised in order to keep inflation under control. Tax considerations and unemployment was also an important area where the Government intended to exercise control over MOL. Political changes and regular clashes between the Government's interests and corporate issues resulted in radical changes in the management of the company in 1995.

In the mid 90's MOL, now facing home competition, but also sensing regional rivalry especially from Russia, launched a new strategy to become a regional powerhouse. The company began expanding its network of service stations into neighbouring markets with variable success. It was regarded rather brave to enter the Romanian market with the MOL corporate identity that is based on the Hungarian tricolour. But both the brand and the operation was promptly accepted on the Romanian market. While in Croatia the fuel market still lacked the liberalization, in Ukraine the obvious political uncertainties were holding back MOL's investments. Obviously the retail expansion was not possible without secured crude oil supply and efficient refining and transportation capacity. The other aspect of the new strategy was to balance the dependence on the Russian crude supply and to offset the shrinking domestic resources with new upstream acquisitions in Asia and Africa. MOL has successfully obtained licences either independently or with development partners in Tunisia, Albania, Greece, Egypt, Syria, and Pakistan.

Quite clearly the increased size of the operation and the increased expectations of the new international shareholders raised new challenges for MOL with respect to organisation structure, management and controlling practices. It was relatively easy to lay the foundations in terms of procedures, information flowcharts. Planning period is described as continuous process engineering. Likewise in many other r-organization projects during those years external and many foreign, consultants occupied numerous offices and often just reorganised those new structures the very previous ones have just implemented.

At the same even more challenging task was shaping the culture of a new organisation, which was a newly created company without a coherent collective memory. The external environmental factors and possibilities were new and unexplored at that time. Still the company already had a corporate culture. It was

MOL's ambition to become a fully integrated energy company. It was active in the entire value chain from exploration through production, refining and distribution to delivering products and services to the end user. Still integration is not just about ownership of a vertically integrated asset portfolio; it is about an organisation that is able to learn and to integrate these activities into an efficiently working organism. That was still missing at this stage of the development. The strategy of organic growth followed until 1999 depended to a lesser extent on the organizational culture.

Major Challenges	Corporate Strategy	Critical Success Factors
• Strong competitors in domestic market (Shell, OMV…) • Regional rivalry growing – Russian giants rise • Strong Government Influencing • Reorganization, establishing new management style and controlling practices	• Organic growth on domestic market • Trough restructuring • Starting regional expansion	• Diversifying raw-material sourcing through up-stream acquisitions • Relying on consulting expertise coupled with learning through trial and error, process re-engineering • Creating new, modern and flexible organizational structure and processes, ERP systems • Starting to shape organizational culture pro-actively

Table 2: Phase II – Stabilization after Privatization (1995-1999)

Transformation to a regional leader (≈1999-2005)

János Csák who became MOL's Chairman of the Board when he was only 37 years old brought a greater and more aggressive change to MOL. Through his leadership, the vision of MOL as a "regional leader" has been born. He succeeded to embrace the whole organization in his idea. Although the Hungarian state by this time held only 25% +1 golden share stake in MOL, the Government's influence was still dominant. Despite this strong control, Mr. Csák sacrificed a lot in order to prepare the company for the future. Eventually he sacrificed his own position but his legacy was continued and his vision was fulfilled and over-fulfilled by his successor.

By this time it became obvious that the selected regional expansion strategy and the progression towards becoming fully integrated was the right decision. But timing became crucial. It was clear from the beginning that strategic goals cannot be achieved by organic growth but through acquisitions due to the special features of the industry (mature industry, limited growth possibilities, increased competition, intensified pressure for economies of scale, consolidation). The situation of the regional industry forecasted that MOL Rt. could become an acquisition target itself if the objectives of the growth fail to be reached. MOL had a relative advantage over its peers in the region: MOL was rather early and successfully privatized, but other CEE companies and more importantly the larger and financially more potent international players started to become active in the region. By this time the Hungarian market was the most competitive in the region. Around 1997 there were more internationally branded filling stations in Hungary than in the rest of the entire CEE region. Low refining and retail margins made the global companies cautious, many of them (Q8, BP, ARAL, Mobil, Avanti) have decided to exit the CEE markets. In most of the cases OMV or Shell acquired these stations. Their potential retail dominance started to be worrying. At the same time these companies were not successful in negotiating with the national companies either with retail or with refining. The Russian energy giants were more concerned with their internal issues for to be considered as very serious players in the CEE markets. This situation created the momentum for MOL.

Although the organic growth strategy still had a better fit with this relatively young company, it was not a sustainable option anymore. To achieve the challenging goals and to capture the opportunities, the management had to revise the strategy. The new, young and dynamic board voted on acquisitions to achieve growth.

There were four potential companies in the region for MOL to be considered: The Polish, Romanian, Croatian and the Slovak national oil companies. Each of these markets and companies had its own benefits and issues, but the main question remained the same. The new management had to enable first the organization itself in order to be able to deliver the results set out in the new strategy. To carry out such an expansion strategy fundamentally three ingredients were required:

- Capital
- Cash Flow
- Human resources / Organizational Culture

As a chairman, János Csák disinvested in all the non-core businesses, such as hotels and resorts and also the recently obtained exploration licenses in Asia and Africa. Disinvesting in upstream did not mean to give up the integration strategy. It was rather shifting the focus from exploration, which is a rather "high risk - high reward" business, to the more stable and instant cash flow producing already explored production sites. This highly successful disinvestment program resulted in HUF 40 bln ($ 180 m) free capital that would later be invested in growth.

To further strengthen the cash flow position of the company a significant cost saving initiative was rolled out. The number of employees was downsized by one-third from 20 thousands to 12 thousands. Other cost reduction initiatives further helped the company with HUF 26 bln ($ 110 mln) free cash flow.

Although these financial maneuvers were essential for the future and resulted in significant increase in shareholder value, the most important contribution from Mr. Csák was to be found elsewhere.

He was the first to bravely break up the traditional nonfunctioning alliances within the company and replace them with a well functioning "guiding coalition". The processes, guidelines and systems were already in place, but to a certain extent the "old" people were there as well and in some instances they were blocking the implementation. Mr. Csák was the first to realize that all the efforts and resources spent on consultants and process engineers are just a waste of time and money, if there are no people to support and implement them. A series of personnel changes at the highest level was necessary to reshape the corporate culture towards a truly multinational company. Restructuring the company by eliminating the process-based structure and introducing strategic business units (SBU) was the way forward. The executives of these SBUs were accountable to the top management of the company and this has resulted in a highly flexible structure. The two main pillars within the company, upstream and downstream organizations, were fighting each other to gain power over the company; the executive pyramid was stuck in between these two power blocks. He made the first steps to brake down these silos and to eliminate the unnecessary layers of the organization.

Due to a disagreement between him and the Hungarian government, János Csák resigned before he could accomplish what he had envisioned for MOL's future. Hernádi Zsolt who replaced him in 2000, had shared Csák's vision of MOL becoming the regional champion and continued to make strategic decisions to realize this goal.

Various negotiations had been going on for the last 2 years with all four potential partners in the region. Someone had to make the call on acquisitions.

In the first round the Polish PKN Orlen, Polski Koncern Naftowy Orlen, and the Romanian Petrom were put on temporary hold. Although the Polish market offered the most potential due to its size and the strategic fit, it proved to be too big of a bite for MOL at that time. It was more feasible to start somewhere closer in the directly neighboring countries. While Romania is the second largest populated country in CEE and the only one with reasonable crude oil production, MOL had mixed feelings about it. By this time MOL operated a network of 34 filling stations in Romania with varying success. The acceptance of the operation by the local citizens was successful; the outlets were delivering healthy throughputs. However, due to the 10% luxury tax and the 6% excise duty imposed on refined products, profitability was at stake and to supply wholesale business from Hungary clearly was not feasible. Also the entire Romanian privatization was at a less developed phase compared to the other CEE countries. Eventually 51% of Petrom was privatized to OMV only in 2005 and the Romanian state still kept 40% of the company shares.

But negotiations continued with the Croatian INA and with Slovnaft in Slovakia. Although both countries opened tender already back in 1999, the highly desired privatization of the Adria pipeline in Slovenia was postponed as the Slovenian government called off the tender. The Adria pipeline was the only realistic alternative to the Russian "Friendship" pipeline as it was supplying crude oil from the Adriatic see. The most promising alternative remained Slovnaft. MOL stepped onto undiscovered path and started its journey to grow beyond the Hungarian border being one of the first CEE companies challenging the perceived status quo.

Major Challenges	Corporate Strategy	Critical Success Factors
• Western and Russian competitors immanent • Internal divisional power struggles • Shaping new corporate culture • Matching corp. culture and structure across acquisitions	• Regional expansion through acquisitions, of major impact if possible	• Introducing scalable and international organizational solutions e.g. From process-based structures to SBUs • Replacing old organizational routines with new power-structures and coalitions • Generating cash-flow through cost-cutting and divesting non-core activities (employees, high-risk explorations etc.) • Strategy of preparing and executing

		acquisitions • Strengthening regional position across the whole value chain • Fully utilizing synergies with acquired targets • Ever increasing focus of top management on intercultural aspects and human factors by stressing mutual responsibilities and benefits + reducing “us and them” mentalities

Table 3: Phase III – Transformation to regional multinational (1999-2007)

The will now give an overview on the regional expansion steps taken by MOL in the various CEE countries.

SLOVAKIA – Merging with Slovnaft

The history of the national oil company of Slovakia dates back to 1895 when the first mineral oil refinery was constructed in Bratislava. Bratislava used to be the Hungarian capital Pozsony for 300 years from the XVI century till 1848. The obvious close ties to Hungary on one hand offered opportunities in the form of cultural similarities; on the other hand the separation of the two countries in 1918 developed some nationalistic tension that raised concerns at the integration. Bratislava also had a German name “Pressburg” as the three countries were all part of the “Austro-Hungarian Monarchy”. The geographic proximity of the OMV and the Slovnaft refinery also offered an obvious integration target for the Austrian Oil company.

During the 1960’s Slovnaft grew out from the refinery to a refinery and petrochemical complex enriching the range and quality of its products as well. Its privatization process was finished at the beginning of 1998; As a result of the development process started from the end of the 90s the refinery in Bratislava became one of the most up-to-date refineries in Europe. Oil extraction was not among its activities, the crude oil was acquired from the international markets. Slovnaft had significant capacities in the plastics and petrochemical industry, with 80% of market share in the domestic market. The company had strong wholesale

market position in the Czech Republic (approx. 25% in diesel, and 15% in gasoline) and 360 retail stations in four countries (Slovakia, Czech Republic, Poland, Ukraine).

Two factors increased the attractiveness of Slovnaft: first, the company had already had a modern EU conform refinery; furthermore the Czech and Slovak market showed further growth potential, additionally, the privatization of the Croatian company had been delayed by political reasons.

MOL was three times bigger in size; however their debts were almost the same. The intense developments increased the need for credits thus creating financial difficulties. Consequently, as a result of bank pressure a call for tender was initiated in order to attract capital.

The other bidding companies were the Austrian OMV, the Russian Lukoil and Polish PKN. The pre-selection was done based on three major conditions: the intended share ownership, proposed options for the future, modernization and development strategies after the acquisition. The evaluation of the offers was based on the following criteria: strategy, technology and finance. After obtaining the necessary approvals from the Hungarian, Czech and Slovakian Competition Offices on March 31, 2000, Slovnaft signed the agreement on strategic partnership with MOL. MOL acquired first 36.2% of the shares but secured 50% of the board seats and key positions. According to the agreement MOL had options to buy the remainder of the company. The value of the transaction was USD 262 million.

Fit between the merging firms

The comparison of the two companies makes clear the motivation of each company for the partnership: MOL's financial aid and management capabilities were beneficial for Slovnaft, whereas Slovnaft's existing resources and market position were attractive for MOL. Moreover, the growth in size and market power supported further regional expansion plans. The refinery overcapacity that caused problems for many other companies in the region was not a problem for MOL and Slovnaft, since the Danube (Hungary) and the Bratislava (Slovakia) refineries had 80% and 95% capacity utilization respectively. The profile of the two refineries was different, MOL focusing on diesel, Slovnaft focusing on gasoline production.

Management synergies were considered to be as important as financial synergies. The synergy potential that resided in management and experience sharing

was difficult to measure. An employee rotation program was launched, and the top management and key positions taken by MOL experts provided the opportunity to exploit the know-how sharing. By Slovnaft's acquisition MOL had gained substantial experience on how to manage a cross-border acquisition, an experience that could be beneficial in further realization of its regional expansion strategy.

In 2002 MOL increased its shares in Slovnaft. As a result of exchange of shares MOL reached a 68% ownership in Slovnaft, while the Slovakian partner gained about 10% of MOL shares. Further savings were expected after MOL had acquired the majority of the shares, but the question was open how to achieve the ambitious goals, which organizational structure would best serve the realization of synergies.

Post-merger synergy planning and monitoring became continuous. One The MOL-Slovnaft deal was characterized by a permanent search for synergy potentials, apart from firm and systematic synergy realization and control.

Evaluation of the acquisition

The integration process was supported by consistent project management. The top-management controlled the whole integration process, starting from the goal setting and ending with the accurate control of implementation. The employees were informed about the plans and expectations as well (e.g.: personalized mails, company newspaper, newsletters, intranet, and CEO messages), that facilitated the acceptance of changes. Decisions regarding human resources were taken quickly. Language courses and specialized trainings for Hungarian expatriates were organized but the mutual language of communication was English from day one.

The Slovakian and Hungarian employees worked together on several projects since back in 2000, long before their appointment as expatriates. Accordingly, they had already known each other, which facilitated their common work. One of biggest challenges of integration was managing conflicts due to the different organizational cultures (for example: MOL employees were much more critical, while Slovnaft employees were characterized by firm execution of the commands). Further on, the conflict has been extended because important work-force reduction was done at Slovnaft (over 3 years the number of employees decreased from 8000 to 6000). Therefore Slovnaft people felt themselves the losing party. This feeling may dissolve gradually. Board seats are equally distributed between the representatives of the two

firms, and several key positions (mainly regarding refinery) are held by Slovnaft managers, which facilitates the cross-organizational integration. Further, partnership is strongly emphasized in the communication. In order to decrease the “us and them” conflict, a new common company identity was formed. Positive communication of a friendly partnership is important also from external stakeholders’ and shareholders’ point of view.

Strict plans and continuous teamwork facilitated the realization of synergies. In this process the main difficulty was quantifying synergy potentials and the realized synergies to ease the control process. The functional task forces were formed by specialists from specific areas, who produced many new ideas. This acquisition illustrated well the process of a *symbiotic* integration: the demand for strategic dependence was as much important as the need for organizational autonomy. The parties aimed at exploiting not only the reciprocal benefits but also to promote a mutual learning process. The interactions between the two companies have gradually increased as the objective was to stimulate knowledge transfer and integration of the results in the new operation.

Overall, the acquisition and successful integration of Slovnaft were an important learning process for MOL, which helped the company to gain essential experience for future growth and acquisitions.”

ROMANIA – Missing Petrom, Getting Shell Romania

Probably the most controversial and publicly mostly critically received business in the MOL portfolio is Romania. Although MOL opened its first foreign filling station in Romania as early as 1996 making the business profitable remained a challenge for many years. Romania operated 26% of the total 2.5 million b/d (126 million tons/year) CEE refining capacity. The market potential was limited with the relatively slow development of the entire Romanian market economy as well as the various issues and slowdowns in the privatization process of the oil industry. The legislative environment of the retail business and the high entry costs were keeping returns rather sluggish or all new entrants. Despite of these challenges some companies decided to invested into the Romanian oil industry. The most dominant international player was OM, who acquired of 51% of the state owned Petrom refinery in 2005. In 2006 OMV transferred its business in Romania, Bulgaria, and Serbia and

Montenegro to the Petrom subsidiary. Petrom acquired 99.9% of the three companies OMV Romania, OMV Bulgaria and OMV Yugoslavia from OMV Refining & Marketing GmbH. Petrom received 178 OMV filling stations in Romania, Bulgaria, and Serbia and Montenegro as well as the corresponding wholesale business. The retail network including the original Petrom portfolio remained operating under the OMV brand.

The development of MOL's network was rather cautious and slow since the opening of the first outlet in 1996. By the end of 2004 MOL was operating only 74 retail outlets in Romania. The network was rather unevenly spread across the country: MOL focused on two regions Transylvania and Bucharest. The first was designed to benefit from the geographic coverage of the Hungarian distribution system while the latter was benefiting from the relative economic advantage of the capital. Still the network was vulnerable, because of its size and the fragile and dependent supply situation.

The third important player in Romania was Shell with gas business, retail operations and a developed lubricant and wholesale business. The retail network consisted of 59 well-located high-throughput filling stations. The 59 sites similarly to MOL did not provide Shell either with a significant presence on the Romanian market. In April 2005, Shell divested its Romanian operations with the exception of the gas business. 100% of the shares of Shell Romania Srl. were transferred to MOL. The integration of Shell Romania into the MOL group was less straightforward than expected. It was time and effort consuming and both companies suffered financial and moral losses. Unlike with the Slovnaft case, there was no time to jointly prepare a plan for the integration, as it was a takeover and not a partnership. However, the MOL management team was aware of the need to make compromises between the "MOL way" and the "Shell way" of doing business. Shell was not in the position to prepare its employees for the changes. Shell's operation was a greenfield development, Shell building the operation from scratch, and it had corresponding organizational culture. Although MOL was practicing already most of the international standards, the cultural gap between the two organizations was still too wide to ensure smooth transition. The other area of difficulty was with the set of synergies that MOL had to work out. There were rather wide market overlaps between the two operations that offered an enormous amount of cost saving opportunities. Most of the cost savings were to be realized in the form of headcount decrease. Regardless of

the early losses the two companies has been integrated and operation has been stabilized. Today MOL is running a more cost effective operation with more than 120 filling stations evenly spread across the country with a 12%+ estimated market share. MOL has already learned with Slovnaft and internalized with the Shell Romania amalgamation that an integration is essentially about its people. Even though the differences between the corporate cultures of two companies will not block the merger, clear communication of priorities and management support are essential ingredients to eliminate or at least minimize the personnel discomfort and fear that can lead to major losses in any integration process.

CROATIA – The INA-MOL Strategic Partnership, Adding TIFON

INA is the Croatian Oil Company with a 50-year history. Throughout the years after its establishment, INA has been successful in increasing its refining capacity by heavily investing in the development of new refineries and technologically improving the existing ones. INA also put into operation an oil pipeline connecting its refineries in Croatia with its consumers in the continental part of the country. At the end of the 1970's, INA had over 500 filling satiation throughout Yugoslavia. During the Yugoslavian war, the development of INA was paused. In 1990, after Croatia revoked its independence, the state became the 100% owner of INA. In 1993 the company was transformed to a joint-stock company. In 2000, the Croatian government declared its plan to privatize INA. MOL was one of the potential investors. The negotiations were finalized in 2003 and MOL acquired 25% of INA for $505 million.

MOL, as a strategic partner, was obliged by the Croatian government to invest additional $1.5 bln in R&D, operations and modernization of the 2 Croatian refineries in Rijeka and Sisak. The project was planed to be finished in 2009 when these two refineries would be technologically the most advanced in the region. Hernadi thought that on the top of the obliged amount, MOL should invest an extra $500 million in INA's filling stations and environment protection.

By becoming INA's partner, Hernadi hoped that MOL would become the leader in South East Europe, namely the Balkans. Through this partnership, the Hungarian regional champion would gain a direct access to the Adriatic refineries (Rijeka and Sisak) and the Adria pipeline. All this would decrease MOL's dependence on Russia.

INA was already an established retailer in the Croatian market; thus MOL had gained direct access to a new market.

Prior to the closure of the negotiations between MOL and the Croatian government, some industry analysts where skeptical about the strategic fit between these two companies. An ING Barings' analyst warned MOL that the strategic partnership might not deliver what MOL expects because the state still has great influence and decision power in INA and the prices of oil derivatives are still set by the Government.

MOL has started to transfer its know-how gained from its own transformational process to the Croatian partner. This is where INA's benefit in this partnership lies. INA directly benefits from knowledge transfer in various fields from supply management to recruiting, which will insure INA's more rapid development and modernization in the future. The Hungarian partner helped INA to migrate to the new IT system that has proved to be crucial in MOL's success. If the cooperation proves fruitful, INA could greatly leverage on MOL's experienced management that has led the Hungarian company through the obstacles and challenges to a successful position in the European oil market. In 2008 MOL has become the major share holder of INA.

Croatian fuel retail and wholesale company Tifon owned and operated 36 well positioned filling stations across Croatia and had 7% of the market share. The company has invested in 20 new premium site development projects. In August 2007, MOL Group has signed an agreement to acquire 100% stake in Tifon. The Croatian Tifon became an attractive target for MOL since it fits well its retail growth targets set for 2010. In addition, MOL and INA both benefit from this transaction by increasing their market share in the Croatian fuel retail market.

Both INA and the Croatian government backed up the MOL Group transaction since it was seen as proof of MOL's dedication of consolidating the Balkan markets.

SERBIA – Loosing out on Beopetrol, Entering in Retailing

In August 2003, MOL has an offer to acquire an 80% stake in the leading Serbian Oil company - Beopetrol. The Serbian company had great growth potential and should have been included in the company's portfolio. Beopetrol was mainly operating in the downstream oil activities and in distribution of petroleum products.

The Serbian market leader owned 179 filling stations in 2003. MOL believed that it had a proven track record in creating value through successful cross-border partnerships in the region, and that this fact will be considered as distinctive factor by the Serbian government when deciding about the investor.

MOL offered a fair price, long-term partnership and further development of Beopetrol for mutual benefits of the Serbian government and the oil industry. In addition, MOL believed that the combination of MOL, Slovnaft, INA and Beopetrol would provide a clear regional market advantage over its competitors. Unfortunately for MOL, the bid was won by its Russian competitor – LUKOIL. The Serbian government has sold Beopetrol for $452 million in 2003. Even after four years after privatization, Beopetrol has still been recording losses. In 2006, the company incurred a $23 million loss.

After the acquisition failure, MOL entered the Serbian market in 2005 by opening several MOL filling stations. MOL is operating 11 filling stations in Serbia and wants to increase the network to 25 sites in the coming years. MOL has not succeeded yet in acquiring of any of the Serbian Oil companies, but its CEO admitted that MOL's basic goal in Serbia is still to look for any acquisition possibilities that would ensure the sustainable development of MOL in the Balkans region.

BOSNIA & HERZEGOVINA – Acquiring Energopetrol

The Bosnian oil company was founded in 1960 in Sarajevo under the name Energopetrol. When the Bosnian war finished, the company was in a bad shape, with some of its assets damaged. After Bosnia and Herzegovina was recognized by the international community as a separate country, the state of Bosnia and Herzegovina became 100% owner of Energopetrol. In 2005, the Bosnian government decided to privatize the national oil company. Among other interested parties, the consortium of INA-MOL entered the negotiation with the Government. After one-and-a-half years of negotiations, in August 2006 the contract was signed. INA-MOL consortium acquired 67% stake in Energopetrol for $100 million. The Government kept 22% of the shares, while the reminder 11% belongs to minor shareholders.

Moreover, MOL and INA agreed, as a part of the contract, to repay all Energopetrol's debts that are worth 30.7 mln euros. The strategic partners will invest around 77 mln euros in the period 2006-2009 to finance Energopetrol's development.

The Bosnian government had a strict condition for the foreign investors – none of the 1059 employees are to be laid off. The name Energopetrol has been kept by the consortium. 67% of Energopetrol's shares and all the transaction costs were evenly divided among the partners, namely INA and MOL, as well as the seats in Energopetrol's management board.

MOL's expertise and support would create a unique opportunity for Energopetrol to modernize its assets and achieve operational efficiency. It would also ensure knowledge-transfer between such partners as INA. Energopetrol will further benefit from the Consortium's resources, strength and position in the region and most importantly: from its know-how. The Bosnian government hoped that the Croatian-Hungarian consortium would revitalize and turn Energopetrol into a modern, customer-oriented and competitive company.

This deal was the first MOL-INA move together as a consortium, and is in line with the growth strategy that was set for the South-East Europe. Through this transaction the MOL-INA consortium gained a new market and the most developed network of filling stations in Bosnia and Herzegovina.

AUSTRIA and ITALY

During the transformational phase, MOL realized the need to expand also into Austria with retail units. It had purchased an Austrian filling station chain – Roth with 20 retail outlets. MOL also expanded its wholesale business by purchasing a fuel storage facility in 2004. The Austrian expansion was regarded strategic rather than tactical. It is within the supply radius of MOL but the present network is below the critical mass that would provide efficiency and market presence.

In 2007 MOL announced its expansion into a new European market through the acquisition of "Italiana Energia e Servici" (IES). IES is a privately owned oil refining and marketing company based in Northeast Italy, with 600 employees. IES owns the Mantova refinery and has a chain of 165 retail stations, of which 30 are directly owned. The company's area of operations is adjacent to MOL's current key territories of Croatia, Austria and Slovenia. This provides MOL with opportunities both to expand its downstream presence in Northeast Italy and adjacent markets and supply the Italian market from the Group's refinery in Rijeka, Croatia.

Summary:

On its road to become regional leader, MOL has undergone several phases of restructuring: In the first phase the strategy of MOL was "organic growth" and focused on finding new financial resources through privatization. Also during this stage important new skills and management knowledge were acquired about modern technologies and standards in retail business through joint ventures.

In the second stage, the company gradually started its expansion: by enlarging its network of service stations into the neighboring countries, by executing several upstream acquisitions in Asia and Africa in order to offset dependence on Russia's oil supply. Further, at this stage MOL made efforts on becoming a fully "integrated energy company", that is to manage the total product value chain in oil and gas. Top management of MOL worked hard to match changes in the organizational structure with the corresponding developments of the organizational culture.

In the third stage the company developed a clear vision to become a regional leader and has set a strategy to achieve this goal through regional acquisitions which gradually established the MOL in the CEE market: the merger with Slovnaft in Slovakia (where very strong synergies boosted the merger process); by expanding the network of filling stations in Romania and Serbia & Montenegro; by acquiring shares in INA an oil company and Tifon a retailer in Croatia, of Energopetrol in Bosnia & Herzegovina and also of Italiana Energia e Servici in Northern Italy.

The case shows the interrelationship between the changing environment and the modified business systems within the company. As changes take place in the general, legal, political and economical environment, MOL had to adapt to these changes. At the same time MOL as one of the largest employers in Hungary showed more than just business reactive capability: it also influenced the society in a proactive way. MOL is a good example where strong organizational structure was matched with a good organizational culture, which has been modified by key change agents, key CEOs.

Also the article gives a general summary of the transition process from the socialist planned economy and society to the open/free market economy. At the same time it shows the major difficulties posed to a large company such as MOL,

which has particularly high political and social exposure due to its large number of employees and GDP-share. Further, energy and oil sector are regarded as strategic, thus treated with particular importance by governments. As an integrated oil and (formerly gas) multinational regional company, MOL, faced certain restrictions; it was not completely free in making major management decision, because of the above mentioned characteristics.

On the other hand the company had to adopt a strong market drive. Its owners, mostly international investors, measured it along the international financial standards, just as any other of their investments. This naturally created some tensions between being an aggressive, profit oriented, stock price maximizing company listed on stock exchange (in Budapest and in New York), and being a former state employer.

Related Readings:

Antal-Mokos, Z./ Tóth, K. (2006). Chapter 14: MOL: The emergence of the Central European MNE, in: Meyer, K./ Estrin, S. (eds.): Acquisition Strategies in European Emerging Markets, Hampshire: Palgrave Macmillan.

Buzády, Z. (2005): Reorganising Friesland Hungaria, in: Journal for East European Management Studies, 10, 4, 314-329.

Martin, R./Casson P. D./Nisar T. M. (2007): Investor Engagement - Investors and Management Practice under Shareholder Value . Oxford: Oxford University Press

Sárváry M. /Szabó E. (2004): Oil's Troubled Waters - MOL: The TVK Acquisition – Case Study, Fontainebleau, INSEAD

Final note: A complete teaching note accompanying the case study can be requested from the author.