

**The role of informal talk in
small business cooperation and access to subsidies
Analysis of two historic wine regions in Hungary**

by

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Submitted to

Central European University

Department of Political Science

In partial fulfillment of the requirements for the degree of
Master of Arts in Political Science

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Budapest, Hungary

2015

Abstract

The aim of the research was to analyze the links between informal interpersonal connections, institutionalized cooperation between small business managers and their effect on public subsidy effects. An in-depth interview-based empirical data collection was conducted. Ten wine production firm managers in the Hungarian historic wine regions of Sopron and Szekszárd were included in the sample.

Basically it was found the informal talk has direct influence on both institutionalized forms of firm cooperation and public subsidy effect of firms. Cooperation-related informal talk is generally interpreted as a manifestation of or a reaction to a wider meta-narrative on Hungarian social and business reality of cooperation. This depends of the local perception of success or failure of cooperative institutionalized activities. The most important direct influence enhancing aspect of informal talk is its functioning as a reputation mechanism reducing transaction costs.

Institutionalized cooperation only affects public subsidy access in the specific case when the cooperation is formal and in itself subsidized. Narratives questioning the reason behind subsidizing cooperation were revealed based on the perceived experience of losing cooperative capacity in the post-subsidized period.

Acknowledgements

I would like to express my gratitude to my supervisor, Borbála Kovács who supervised my work and greatly contributed to this thesis. Her support and constructive critique provided great inspiration and help in the process of model construction. I am also immensely grateful for her patient instruction regarding basic methods of qualitative empirical analysis and general tolerance towards my chaotic writing schedules.

I am thankful that Balázs Szepesi continuously inspired me in the last three years to engage with the most important concepts and gave both pragmatic and insightful advices in model construction of this specific study.

I would like to also thank Robert Sata for managing administrative and resource-related issues and giving advices and consulting on possible fieldwork support-schemes.

And you, Bogi, for being here in the 25th hour.

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1. Introduction

1.2. Background for the puzzle

The basic problem of my research can perhaps be best captured through a presentation of five stylized statements about Hungary's, Hungarian business' and Hungarian wine producers' sociological and institutional reality. These are the following:

1. The level of interpersonal trust in Hungary is higher than in most post-socialist societies, while it is significantly lower than the average level in Western European countries. The level of institutional trust is on the low end, compared to European Value Survey participating countries (Tárki, 2009). Boda and Medve-Bálint's (2012) analysis of ESS survey values highlights that the low level of institutional trust in Hungary is perhaps not simply a consequence of interpersonal trust relations – institutional trust's higher relative volatility (compared to interpersonal trust) implies that perceived fairness and the performance of institutions is one of the important underlying causes.
2. Hungarian capitalism is face-oriented (“arcos kapitalizmus”). This means that (according to a comprehensive study based on qualitative interviews with Hungarian small business owners) in general Hungarian entrepreneurs prefer personal contract enforcement guarantees rather than market- or coercion-based guarantees. Entrepreneurs think that the nurturing of interpersonal trustworthiness is more important from the perspective of business success than obeying rules of formal market institutions or creating formal means of inter-firm cooperation (Szepesi et al. 2008).
3. In the 2007-2013 programming period of EU Cohesion Funds and EU Agricultural funds, 32.4 billion euros of additional funding was provided for the Hungarian

economy. These numbers mean that on average 4.6 percent of the Hungarian GDP flows into the country in the form EU subsidies (Klauber and Nagy, 2010). While businesses and particularly SMEs are generally one of the main beneficiaries of the subsidies, Cohesion Fund absorption is easier among a small segment of more innovative, export-oriented and financially stable companies (gazelles) (Csire and Major, 2010a). Csire and Major (2010b) also highlight that development funds often support projects without significant growth effect. This might be due to bureaucratic barriers and regulations, which leads to an adverse selection of rent-seeking (instead of market success) oriented firms.

4. One politically and institutionally focused goal of allocating EU funds was supporting business cooperation: in two rounds of calls for proposals (2008, 2011), the Hungarian Cluster Development Office (MAG) granted 26 million euros to 177 early stage cluster cooperations and 41 developing cooperations (Somkuti, 2013). While, to my knowledge, no relevant comparative data is available to show the relative magnitude of this support, the factual existence of a targeted fund allocating institution in itself shows at least the rhetorical priority of subsidizing inter-firm cooperation.
5. In the 2007-2013 EU programming period, wine production and viticulture industries accessed institutionally delineated funds within the framework of the Common Agricultural Policy. This not only means that firms in these industries did not have to compete with other agricultural producers to obtain subsidies, but national governments also had institutional power to determine the exact amount of subsidies in the two industries. Wine industry supports after 2008 not only consist of territory-based CAP transfers, but also include grants for technological development and innovation (EC Regulation 479/2008). Funding provided for the wine and viticulture industries grew dynamically in the period: the amount of support was 4.2 billion HUF

in 2008 (16.9 million EUR); 6.5 billion HUF in the 2012/2013 wine market season, and were planned to amount 8.5 billion HUF (29 million EUR) in the next five seasons (Nemzeti borítékban az uniós bortámogatás 2008; Jelentősen nő a szőlő- és borágazat támogatása 2014). Besides these agricultural funds, some wine production companies also access development funds allocated for business cooperation and tourism or innovation activities. Unfortunately, to my knowledge, no public database exists based on which one would be able to calculate the exact amount of allocated subsidies among the wine and viticulture industry.

1.2. The puzzle

The listing of the scholarly results and factual information above is motivated by my aim to get a structured picture about the role of EU subsidies in the Hungarian wine production industry. Perhaps the bullet points of the section can be grouped into two general topics – 1. the level of trust and importance of interpersonal relations in the Hungarian economy and 2. the role of subsidies in the Hungarian wine and viticulture industry. If one accepts that interpersonal relations and trust relations can be treated as quintessential factors shaping business outcomes, one of the first questions that might come into mind is that Szepesi et. al's (2008) face-oriented capitalism might also be important in the context of wine producer's accessing EU and governmental subsidies. The exploration of this possibility is the fundamental aim of my thesis.

There are two different – though interrelated – lines of argumentation possibly supporting this logic. The first logic relies on preexisting research suggesting that inter-firm relationships involving the sharing of information, knowledge, contacts, technology or other relevant resources are in many contexts important determinants of individual firm success (see chapter 2 on relevant empirical literature). If one looks at the landscape of Hungarian firms and particularly wine production SMEs, it is apparent that access to subsidies plays an important role

in being successful. This, in conjunction with the statements about the role of inter-personality and the low level of institutional trust, raises the question whether inter-firm connections also play a role in gaining knowledge about the best means of accessing funds (knowledge here might refer to information, contacts or process-related practices as well).

A second line of argumentation relies on the fact that, as it was outlined in the fourth bullet point of the background section above, inter-firm cooperation itself is a specific target of EU Cohesion subsidies. Such an allocation of development funds might incentivize the development of institutionalized cooperation between firms – however it is not clear how much it depends on the preexisting relationship between firms. And vice versa, how much the subsidized institutionalization fosters the transformation of other relationships within firm communities.

To sum up, the inevitable question is if inter-firm exchange practices play any role in individual firms' ability to access, utilize and benefit from EU-subsidies (directly or through influencing institutionalized cooperation patterns). If interpersonal contact networks are important in determining success and subsidies are important in determining success, it might be worth looking at the interaction of the two phenomena. The face-orientedness claim of Szepesi et. al (2008) calls for a more specific operationalization of the interpersonal patterns to be explored. As only the non-institutionalized nature of these interactions is apparent, but not the content, I propose to focus on the role of informal talks and deals (informal talk followed by action) in public subsidy adsorption. This choice is explained in detail in the concepts and theory chapter of the thesis (Chapter 3).

1.3. Logical model, research questions, hypotheses

The above explained quintessential problem calls for a study where the role of informal talk can be explored through qualitative research extracting relevant firm personnel's (operationalized as general managers, explicated in the third chapter about units of analysis

and observation) narrative about what kind of cooperative arrangements and talk-centered informal exchanges are commonplace in inter-firm interaction, especially in relation to prepping applications for EU funding.

While the research refrains from formulating causal explanations, in order to credibly examine its deductively formed hypotheses it aims to cross-regionally compare the role of informal talk using a Most-Similar-Systems-Design. This means that two structurally similar (size, types of wine producing, industrial organization structure, and readily visible cooperative arrangements) wine production regions are selected to compare narratives about how informality matters in accessing funds and establishing subsidized forms of cooperation. The research thus consists of a comparative and qualitative study of two out of seven Hungarian historical wine regions: Szekszárd and Sopron. The factors motivating case selection are discussed in the methods chapter (chapter 4).

As it is really hard to quantify effects in a setup where the independent factor is only qualitatively explored and the outcome factors are hardly comparable due to the limits of in-depth interview-based investigation, most factors are captured through narratives. This means that outcomes are analyzed through the narratives of study participants, offering insight into the specific role and importance of inter-firm talk in establishing cooperation and accessing EU funds. This logic is more thoroughly presented in the Concepts chapter (chapter 4).

In light of the above, the two basic questions of the research are the following:

- 1. How do winemakers describe the role of informal talk in setting up institutionalized cooperation with other Hungarian winemakers, if at all?**
- 2. Is informal talk a crucial element in accessing EU funds for development and innovation and, if so, how does it matter for this process?**

In order to systematically understand the role of informality in collaboration, a specific model is applied which makes it possible to link the effect of informal structures on cooperative institutions through cooperative performance. The model is derived from Szepesi and Pogonyi's (2012) wider theoretical construct conceptualizing "community competitiveness". The quintessential theoretical innovation borrowed from the above mentioned analytical framework is the establishment of systematic connections between the concepts of firm competitiveness, community environment and the strategic rational choice of individuals or organizations. Competitiveness is understood here as members' capacity to create and obtain value through engaging in relevant interaction or labor division activities. The community environment basically consists of common values, conventions, community rules, officially imposed rules and contractual agreements, setting the stage for possible action and interaction, while it is theoretically possible to change elements through institutional innovation (Szepesi and Pogonyi, 2012).

In my research, a specific aspect of value creation of geographically proximate SME communities will be examined: the capacity to access and obtain public subsidies. This might require coordinated action from firms and thus – in line with the theory - the role of the corresponding community environment might be crucial. According to my hypothesis, institutionalized cooperation is an element of this environment directly affecting value creation. However, a lower level of community environment is included: to be more precise, informal talk's influence on both the creation and operation of institutionalized cooperation are hypothesized. Moreover, informal talk is also hypothesized to affect public subsidy access directly, outside the realm of institutionalized cooperation. Relevant political economic, new institutional economic and firm theory concepts providing the basis for the Szepesi-Pogonyi model and/or my specific construct are discussed in the third (Theory) chapter. Operationalization of factors and complementary theories are also included there.

The following three figures offer a simplistic summary of the possible logic of relationships between the analyzed factors:

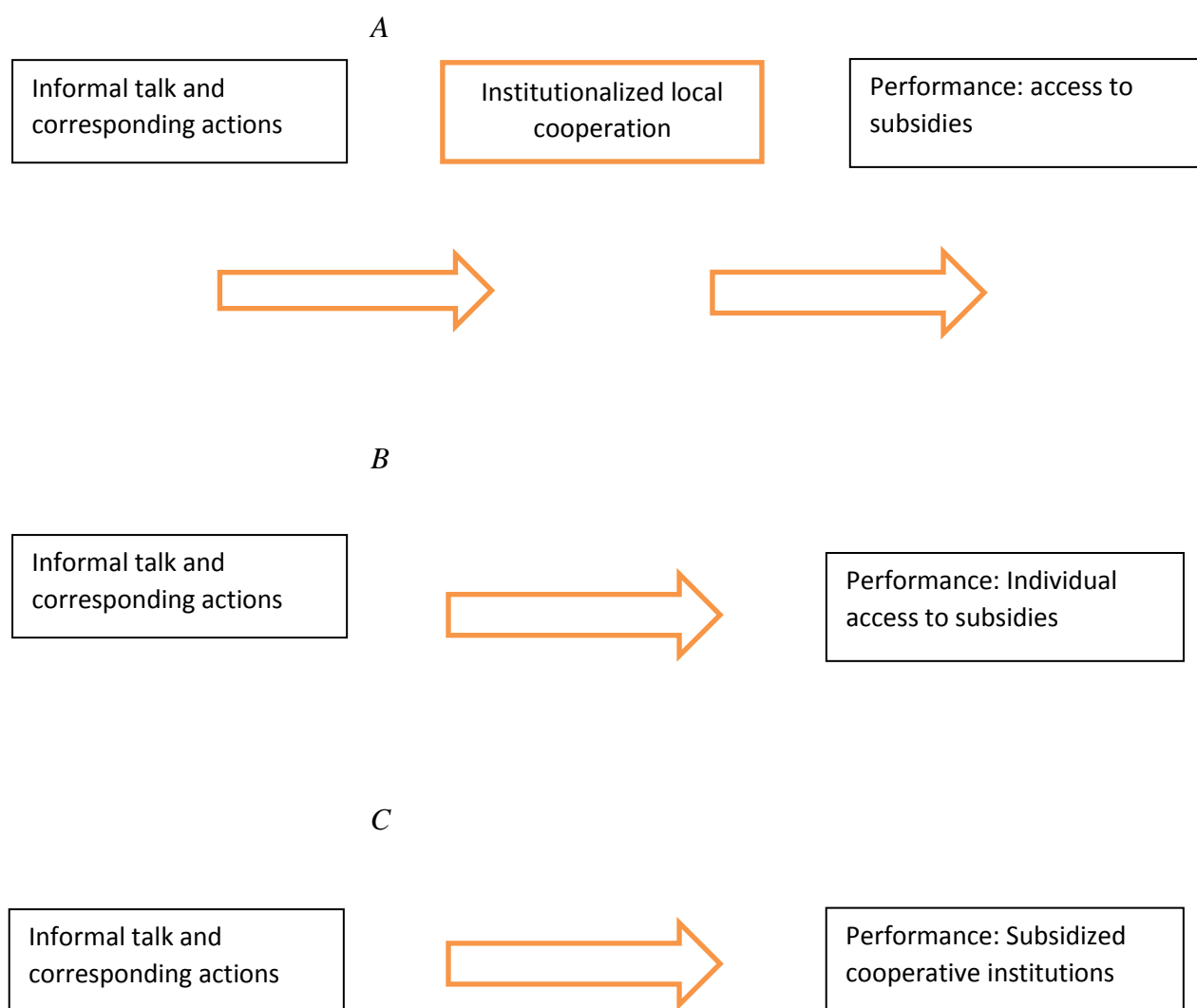


Figure 1 - Hypothesized interaction between the factors being analyzed /prepared by the author/

1.4. Structure of the thesis

This chapter basically serves as a basis for clarifying my puzzle, to understand ambiguities of the concepts and then to set up hypotheses based on identified gaps in the literature. The above expressed model serves as a rough map to explore the puzzle and its context. This means that each variable and its link to other variables are understood via a review of relevant empirical scholarship. This serves as a method to identify challenges to be tackled and gaps in

the literature to be targeted. The investigation uses a backward sequence – it starts with the final outcome variable and then the roles of possible explanatories are discovered. In the review, fixed effect variables which are not included in the simplistic figure are also considered.

3. Theory – The primary role of the chapter is to introduce and discuss the most important concepts and abstract building blocks of the model to be tested. This is constructed instrumentally in the sense that it builds on the state of knowledge outlined in the review chapter. Applied concepts have to be both clear and flexible enough in order to provide appropriate basis for the operationalization.

4. Methods – The presentation of decisions and underlying rationale about research design, units of analysis, primary data collection and primary data analysis. A justification-oriented argument on approaches of case selection and data collection, data processing and data analysis.

5. Analysis – A structured analysis of the interviews focusing on the possibility of confirming or falsifying the hypotheses based on the captured perceptions.

6. Discussion – A summary of the most important takeaways of the research including a reflection on the relationship between theory and analysis as well as the most important findings of the empirical analysis.

1.5. Summary

A preliminary overview of available past research and factual data suggests that besides a low level of trust in institutions, both interpersonal ways of business interaction and EU subsidies are generally important pieces of the environment of Hungarian SMEs and in particular of wine producers (also). Based on that, in an encapsulated form, the central puzzle of my research is the following: *in what ways, if at all, are interpersonal relationships (and their*

contents), cultivated informally, influencing the process of accessing public (EU) subsidies in Hungary?

This question leads me to the design of a comparative qualitative case study-research, where the importance of informal talk and deals for shaping the ease and benefit of accessing subsidies is captured (through in-depth) interviews. I identified two research questions and three hypotheses based on the puzzle. My logic of inquiry relies on a model of community competitiveness by Szepesi and Pogonyi (2012), linking non-tangible elements of business communities' ability to generate value to institutions of interaction and performance outcomes.

First, interpersonal relations (operationalized as informal talk) might indirectly influence the process of accessing public subsidies through shaping the environment of institutionalized cooperation in the community. Second, informality might have a more direct influence where the content of interpersonal interaction can be talks and deals regarding the access, absorption and utilization of subsidies. Third, as institutionalized cooperation is often subsidized in itself, there might be cases where the above hypothesized influences of informal talks and deals are basically unified.

(It has to be noted that that the research applies a dynamic adjustment of hypotheses until the analytical part, being reformulated at the end of each theoretical chapter in light of the empirical literature or theoretical insights. This way of developing research questions and hypotheses appropriate for qualitative empirical research is described by Hennink et al (2011:30-32).)

2. Possible interaction of the factors being analyzed - A review synthesizing relevant empirical literature

The purpose of this chapter is to discover and systematically present the most relevant empirical literature adequate for the research puzzle. The key endeavor here is to clarify and justify the puzzle of the research in light of the gaps in the different bodies of literature, as well as to refine concrete research questions and corresponding hypotheses in light of preexisting scholarship.

The whole chapter is organized around the puzzle, model and hypotheses outlined in the introductory chapter. This means that all independent factors included in my model are generally presented in the light of the empirical scholarship about their possible role influencing other elements of the construct. To put it more specifically: each section in this chapter pursues to review relevant empirical scholarship on the hypothesized interactions between factors (as they were briefly outlined in the introductory chapter). As a rule of thumb each section tries to progress from the general to the more focused in presenting literature. This means that each section starts with general empirical links, then – if possible – SMEs, Hungarian firms, Hungarian SMEs, Hungarian wine producers and EU subsidy access are placed in the context of the outlined factors.

It has to be noted that, as my thesis applies highly specific operationalizations for the analyzed phenomena, it is hardly beneficial to limit this review only to studies applying the same conceptual toolkits. Instead, studies with similar but not identical operationalizations and papers using kin concepts are also discussed. When contextualizing research on business informality, I do not limit myself to only talk about informal talks and deals (*the content of my operationalization detailed in Chapter 3*). Instead, a very similar concept is in focus: informal inter-firm interpersonal contacts. This is logical not only due to the scarce nature of specific literature, but also the relevant content of other operationalizations.

The first section (2.1) discusses empirical results regarding the role of firm cooperation on firm performance, presenting perhaps the most developed body of prior empirical underpinnings. The next step (section 2.2) looks at reviews of literature on the role of informality in shaping firm performance outcomes – basically links between the two most central factors in the analysis are discussed there. Section 2.3 focuses on informality and interpersonal relationships again, but this time the focus is on the factor's interaction with the phenomenon of institutionalized firm cooperation. Section 2.4 provides a summary of the findings of the review and in light of these it provides a refined clarification of the research questions and corresponding hypotheses.

2.1 Institutionalized firm cooperation and firm performance

This section aims to revisit the empirical literature available on the relationship between the quality and existence of institutionalized firm cooperation on the one hand and its outcome and performance on the other. Theories and empirical papers analyzing the performance benefits of small business cooperation usually capture performance with various indicators of market performance such as employment growth, revenue growth or innovation. My thesis uses a complementary dimension in which the measurement of cooperation effects is also possible: access to public funds, grants, subsidies and other support schemes. This choice is justified by various accounts on the role and utilization of EU funds by Hungarian businesses (Major-Csite 2010a, Major-Csite 2010b). Another justification is provided by the sheer fact that the EU agricultural industry is very heavily subsidized: according to Eurostat (2014), “*gross value added at producer prices of the EU-28's agricultural industry in 2013 was an estimated EUR 157.6 billion, while overall subsidies amounted to EUR 51.7 billion*”. This means that business performance depends not only on market considerations, but also on public subsidy absorption capacities.

An extensive body of research focuses on the relationship between cooperation and firm-level performance measures, where performance is understood in changed capacities, growth in size or revenue. The available (not necessarily general) evidence is organized around two types of economic rationale from the world of small business cooperation. These are briefly presented in the following, but are also more in detail discussed in Chapter 3 (Concepts).

2.1.1 Transaction costs

The transaction-cost based theory of the firm - first proposed by Williamson (1979) – explains the emergence of firm-level hierarchical structures with the relative costliness of market contracting compared to bureaucratic coordination. As small business hierarchy is smaller, the existence of cooperative capacity might be crucial to reduce the costs of business-to-business transactions through institutionalized arrangements. It is important to note that transactions are not uniformly understood here as formal market deals, but as any kind of exchange including informal reciprocities regarding knowledge and information sharing. Though the reasons of cooperation for lowering transaction costs can be manifold, perhaps the most often analyzed causes are rooted in the capacity of cooperation to signal trustworthiness.

In the transaction cost-focused perspective on the performance effect of cooperation, a wide body of business and economics literature focuses on bilateral supply chain cooperation. A noteworthy paper is Wynarczyk's and Watson's (2005) analysis of UK SME contractors revealing that turnover and employment growth among firms with an explicit cooperation strategy is higher even after controlling for size, age, industry and managerial motivations. Other relevant examples are Dyer's and Chu's (2002) cross-national analysis of automotive industry supply chains showing that firms with the reputation of being trustworthy are more likely to face small transaction costs. There is also a set of papers focusing on the transaction cost effects of strategic alliances of firms and joint ventures (e.g. Hennart 1991).

Closer to our focus on institutionalized multi-firm cooperation's role in firm performance, several studies are focusing on the capacity of institutionalized cooperative setups (e.g. contract or joint venture-based marketing, production or procurement alliances) to achieve lower transaction costs for all participants of the community (not only in terms of contracting each other but also jointly contracting other firms or institutions). Eloquent examples confirm this from a wide range of industries (e.g. banking, agriculture and franchise distributors) (Gorton and Schmid 1999, Holloway et al 2000, Dalstrom and Nygard 1999). Such agricultural cooperatives are indeed very frequently analyzed in the literature on business cooperation. In both developed and emerging markets, both production and marketing cooperatives are analyzed as well as its specific theoretical relevance is contextualized. A good starting point to look at empirical literature might be the study of Hendrikse and Veerman (2001), Ortmann and King (2007), Bernard and Spielman (2009) or Valentinov (2007).

2.1.2 Knowledge sharing

A second economic logic of cooperation lies in the knowledge-based perspective. As Grant's (1996) theory suggests, firms' competitive advantage depends on the ability to organize and integrate knowledge into the organization. Both independently from the transaction cost logic and intertwined with it, inter-firm collaboration can be one efficient way to do so. Knowledge sharing in this perspective is a general term, referring to the exchange of any kind of knowledge and information related to technologies and practices of organizing resources or the production, procurement and marketing of products and services. Choi Poon and Davis's (2008) empirically supported (*on a sample of 131 Korean firms*) argument is that competitively cooperating firms might have different knowledge assets complementing each other, thus sharing might become a mutually beneficial act.

This logic is also emphasized in a vertical knowledge sharing network by Dyer and Nobeako's (2002) case study of the Toyota production network. The authors argue that productivity is maintained in the supply chain by effective inter-organizational knowledge sharing and learning patterns. Caloghirou, Kastelli and Tsakanikas (2004) provide evidence based on a cross-national European survey regarding the argument that the innovation performance of firms depends not only on internal capabilities, but also on participating in external sharing networks. Similar conclusions are for instance supported by Belderbos, Carreeb and Lokshin's (2004) analysis on the performance effect of R&D cooperation, Cavusgil, Calantone and Zhao's (2003) study on the tacit knowledge transfer's effect on innovation performance, or Bell and Zaheer's (2005) analysis of the knowledge networks of Canadian mutual fund companies.

The literature focusing on institutionalized forms of cooperative knowledge sharing often hones in on one specific kind of inter-firm cooperation of firms in geographic proximity: the cluster, first conceptualized by Michael M. Porter (1998: 197). The scholar proposes the following definition: clusters are *“geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g. universities, standards agencies, trade associations) in a particular field that compete but also cooperate”*. Moreover, a broad range of scholarly work focuses on knowledge sharing as one of the possibly important performance-enhancing activities in cluster cooperation. There is even a theory of cluster creation based on the rationale of sharing knowledge (Maskell, 2001).

Studies based on a wide range of empirical methodologies provide evidence of the performance-enhancement of clustered firms sharing knowledge assets with each other. Zeng et al. (2010) conducted surveys of 137 Chinese manufacturing SMEs in order to measure the effect of different types of cooperation on innovation performance. A structural equation

model analysis suggests that inter-firm cooperation not only manifests itself with significant effect on innovation performance, but this effect is bigger than for any other type of cooperation (e.g. research agreements with universities or institutes or governmental collaboration). Without being exhaustive, further studies reaching similar findings – that knowledge spillover is one but not the only one typical advantage of clustering - include Langen's (2001) analysis of Dutch maritime clusters, Sher and Yang's (2003) analysis of Taiwan's semiconductor industry and Gilbert, MacDougall and Audritsch's (2006) comparison of clustered and non-clustered US IPO ventures.

A group of empirical studies, as some of the ones cited above as well, goes beyond the sheer identification of performance effects due to knowledge sharing in clustering. These works urge to draw up intra-cluster patterns of knowledge sharing and emphasize that knowledge access depends on network positions and internal firm capacities, and firm-level business strategy. Canina et al. (2005) and Baum and Haveman (1997) provide evidence suggesting that companies with differentiation strategies are more likely to benefit from intra-cluster knowledge sharing than firms focusing on cost efficiency. Boschma and Ter Wal's (2007) case study of a South Italian clustered footwear production district suggests that the structure of local knowledge networks is uneven and innovative performance is not simply based on cluster-membership, but also either having a dense net of local or extra-local connections.

The phenomenon of selective and uneven knowledge sharing of clustered firms is also often analyzed in the context of wine industry as well. For instance, Giuliani's (2003) analysis of the Chilean Colchagua Valley suggests that smaller "epistemic communities" or cliques are formed within clusters with different knowledge absorption capacities and different levels of connectedness. This means that the performance effect is also not uniform. Similar conclusions can be found in Giuliani's (2005) comparative analysis of Italian and Chilean wine clusters. Morrison and Rabelloti's (2005) network analysis of informal contacts between

firms in an Italian wine district identifies core and periphery knowledge sharing segments of the clustered community. A partially related result is that Visser and Langen (2005) identifies cooperative governance of wine regions and as one of the key success factors in the rise of Chilean wines on the world market.

2.1.3 Cooperation and firm performance in the wine/agricultural/food industry in Hungary

Transaction costs, knowledge sharing, clustering and cooperation are all topics that usually appear in the academic literature about Hungarian agriculture. However, the depth and exact focus of these works are highly volatile – the purpose here is just to provide an insight about the most relevant results. Fertő et. al's (2012) analysis of contract enforcement perception in the Hungarian agricultural industry shows that SMEs face higher transaction costs and are more threatened by the negative contracting effects of the 2008 crisis (compared to big agribusiness). Fertő (2012) also shows that the firm level transaction costs (depending partly on macro level factors and partly on local and firm level characteristics) are important factors in determining the reliance on legal contracts. Dries et. al's (2013) study of the usage of knowledge in the Hungarian wine industry identifies professional (both business and technological) knowledge as a factor seriously influencing the market success of wine producers.

Cooperation and its performance effects are appearing in Hungarian scholarly literature about agricultural production and wine production industries as well. Dries et al. (2014) found that in the Hungarian wine industry overall, knowledge exchange weakly correlates with commerce-related open innovation, but not with production or development. However, these results can be misleading as controlling for firm size and firm age suggests that younger and larger firms are more likely to innovate and exchange knowledge. Beyond this, numerous Bachelor's and Master's theses and student papers provide small case studies and discuss the

importance of clustered cooperation, lowering transaction costs and sharing knowledge (notably Polyák 2011, Nemes 2012).

Based on the above reviewed literature, the performance effects of cooperation (due to sharing knowledge and information or decreasing transaction costs) are theoretically grounded. There is available evidence that these effects manifest themselves in higher employment, revenue or innovation performance. There is also some empirical literature of analyzing the topic in Hungary, in our chosen industry. However, to my knowledge, there is no relevant study examining the effect of cooperation (its depth or existence) on the capacity to access public funds for firms, SMEs, Hungarian firms or SMEs or Hungarian wine producers. My thesis attempts to do this through comparing firm- and cooperation-level fund absorption capacities in cooperative set-ups embedded in different local contexts. This means that cooperation is not treated as a general effect. The purpose is to differentiate between particular cooperation setups and to compare them from one specific perspective. In order to be able to do that, I focus on a context-specific influencing factor: interpersonal relations and informal interactions.

2.2. Informal interpersonal relations and firm performance

This section tries to focus on non-institutional contributing factors of firm performance, therefore I review the literature connecting informality with firm performance. As it was clarified in the introductory section of this chapter and is explained in the Theory chapter 3, our conception of informality focuses on interpersonal inter-firm connections (talk and deals – sharing information and consecutive action). In line with this, I primarily focus on reviewing scholarly work that focuses on inter-firm interpersonal factors influencing firm performance.

Some of the research assessing the role of interpersonal ties uses the concept of social capital (first proposed by Putnam 1993). Cooke and Wills (1999) evaluate the importance of social capital from the perspective of SME growth through an analysis of (EU or government)

subsidized companies in Denmark, Wales and Ireland. The study shows that the effect of public innovation programs depends on several informal characteristics of the supported firms. It is claimed that supported firms are able to achieve better performance when informal interpersonal ties to connect to external firm networks are present. This research does not offer any empirical evidence, only descriptive statistics are presented from the 1997-8 EU SME Innovation Network Survey. Rass et al. (2013) also use the concept of social capital when analyzing interpersonal relationships' interaction with open innovation (meaning innovation in cooperation with other firms) and firm performance. They find that joint innovative activities establish stronger interpersonal ties between firm employees – which is social capital positively influencing later firm performance as well.

Perhaps the most widely researched issue in relation to informality is that which zooms in on employees' inter-firm interpersonal knowledge sharing. Most of the connected literature focuses on interpersonal ties not a separated factor influencing performance but an element of the cooperative nexus between firms. Thus informal inter-personality is usually analyzed as an antecedent, product or an influencing factor of institutionalized cooperation. As this review devotes a subchapter to the interaction between interpersonal informality and institutionalized cooperation, relevant literature on this issue is presented there, in section 2.3. Nevertheless, a notable study analyzing the direct performance effect of interpersonal ties is Schrader's (1991) survey of American middle managers in the specialty steel and mini-mill industries provides evidence about both the relative frequency and the economic benefits of inter-firm trade of technical information.

2.3. Informality, interpersonality and institutionalized firm cooperation

After understanding the role of interpersonal, informal connectedness in buttressing firm performance, it is important to look at existing literature behind the second hypothesis of the research – the role of the same factors in establishing and nurturing firm cooperation. Again,

the review progresses from the more general to the more specific. The first part of this section briefly looks at general economics, sociology and business literature discussing the role of social ties in firm cooperation. In the second section, agricultural and wine industry examples are presented. Available Hungarian literature is to be discussed in both sections.

Although informality and interpersonal connections are frequently mentioned as possible underlying causes and products of firm cooperation, these are not the concepts that attract the most attention in the literature. Still, several studies try to understand non-formalized and non-institutionalized processes in interaction with the institutional realm of cooperation. Through the usage of the embedded case study method, Chetty and Agndal's (2008) research the operation of Auckland's boat building industrial district, identifying preexisting interpersonal contacts between individuals in different firms as connections that can be transformed into cooperative, mutually beneficial inter-organizational relationships. Stages of development are also identified, as inter-organizational networks are in the first stage also informal, then might become formally institutionalized. Dahl and Pedersen (2004) surveyed engineers in a wireless communication cluster in Northern Denmark (NORCom). Results here also suggest that employees acquire valuable information through maintaining interpersonal contacts with other firms' engineers. Breschi and Lissoni (2001) argue, however, that knowledge sharing is not limitless – in fact smaller sets of knowledge are transferred instead of sharing the most important parts of strategic innovation. This means that informal behavior is in line with not only the cooperative but also the competitive elements of individual firm strategy. Lissoni's (2001) case study of the Brescia (IT) mechanical cluster suggests that interpersonal contacts are organized around informal reputation mechanisms, delineating subnetworks of firms with different degrees of connectedness. Ostergaard's (2009) analysis of the above mentioned NORCom cluster reveals similar interpersonal patterns but in a more specific context: university-industry relations.

Instead of knowledge sharing, Lui, Ngo and Hon (2006) discuss the role of interpersonal relationships from the transaction cost perspective in inter-firm cooperation. The study of agreements between Hong Kong architects and contractors shows that transaction cost setting reputation and trust mechanisms do not exclusively exist on the level of firms, but also on the level of contacting individuals (usually managers) and changes in the level of inter-firm and interpersonal trust are relatively independent from each other.

Wine industry

Jordan et al. (2007) conducted a 145-firm online survey (complemented with 4 in-depth interviews) in order to compare the attitudes and perceptions of wine company managers in France and Australia. The research suggests that the external business environment in Australia is perceived as more supportive than in France along almost all dimensions. The authors also measure the perceived importance of inter-organizational collaboration, which is - according to their findings - significantly higher in Australia. Results also reveal that Australian companies collaborate with more companies than their French counterparts. Moreover, there are also differences in the formality of cooperation. In France, 97 percent of companies rely only on informal collaboration (unofficial, friendly or spontaneous). In contrast, 20.7 percent of firms in Australia engage in cooperation also on a formal basis. Significant differences are also present relating to the usage of intermediary institutions to facilitate cooperation. From this viewpoint interpersonal relations again are very important in shaping cooperation outcomes – but their clear magnitude of influence will also be dependent on other factors such as environmental, industrial traits, interest and incentives.

Taplin's (2011) interview-based ethnographic research in California's Napa Valley revealed that the emergence of formal cluster cooperation was built on pre-existing informal cooperative patterns. *(Not meaning that informal patterns were the fundamental cause of formal cooperation – it is just one type nexus interacting the development with another.)*

Informal knowledge sharing was crucial to disseminating important information among vineyard owners, managers and winemakers about developing business. In later stages, the formalization of these structures was enforced by the growing number of new codified entrance rules and hierarchal ordering was necessary to maintain reliable reputation systems and to cope with new challenges.

At least one empirical study on the wine industry also reveals possible elements of political informality fostering cooperation. Although this stream of research is not consistent with the above highlighted interpersonality-contact-focused operationalization, I found it worth mentioning as my research tries to shed light on interaction between informality and (possibly politicized) access to public subsidies. Simpson's (1999) big historical overview of the development of wine producing cooperatives in Spain, France and Italy between 1880 and 1950 suggests that political associations and ideological ties (catholic local movements, socialist party and fascist party movements) historically played a role in stimulating cooperation. The suggested narrative is that corresponding movements facilitated building institutions through providing ideological stimulus and community basis for cooperation. While the concept of social capital is not used in the study, this is a similar line of argument emphasizing Putnam's (1993) concept but in a specific context.

Implications and possible gap in the literature based on Sections 2.2 and 2.3

To sum up the most important takeaways of the sections about informality, the review revealed that inter-organizational interpersonal contacting and knowledge sharing (both on the managerial and employee-level) are often used as explanatory factors when examining factors of firm and also more specifically wine industry firm collaboration. Regarding interpersonal informal contacts, the phenomenon of knowledge sharing was the far most commonly mentioned role that makes it an important factor influencing performance and cooperation outcomes. As it was the case in Section 2.1 with cooperation and performance, basically no

review was found that focused on the role of interpersonal ties from the perspective of public subsidy access. My research aims to do just that: the most important message of this might be that information and knowledge sharing about subsidies might be an important factor when assessing the role of informal ties and cooperation. An additional takeaway of the empirical review is that larger community environment and individual SMEs positions within networks also mediate the extent to which connections contribute to performance of SMEs. These aspects of network position are to be addressed in the empirical analysis.

2.4 Refined hypotheses

In light of the conclusions articulated earlier, one may conclude that the empirical literature review provided available theoretical evidence for (1) institutionalized cooperation influencing firm performance (understood as subsidy access), (2) informal talk (to the extent that it is similar to interpersonal contacts) influencing institutionalized cooperation and (3) informal contacts' role in influencing firm performance (understood as public subsidy access). It has to be noted that evidence for the latter was more often discussed in relation to the role of informality in cooperation than in separated analyses. An important conclusion of the review of the empirical literature is on the one hand that it is fruitful to not look at cooperation as a treatment providing uniform effects for all partaking firms as benefits are distributed unevenly in institutions. This unevenness is often linked precisely with the existence of subnetworks maintaining varying levels of informal ties. On the other hand, another important message is that both informal connections and institutionalized cooperation often instrument themselves in knowledge sharing – suggesting that learning from each other might be a relevant dimension from the perspective of public subsidy process as well. Gaps are identified in every sections of the review: basically no scholarly work was found to focus on the role of institutionalized cooperation as informal ties or knowledge sharing in the absorption of EU subsidies, especially not in Hungary.

3. The theoretical framework

The purpose of the study is to analyze the role of informal talk (as briefly defined in the introductory chapter and discussed further in the forthcoming sections) in shaping, nurturing and reinforcing cooperative institutions and thus individual and community performance in terms of public subsidy access. The aim of my analysis is to compare the amount, scope and quality of informal talk in two structurally (footnote: the meaning of structurally similar is to be clarified in the intro and methods chapters) similar industrial networks: two wine production regions in Hungary, namely Sopron and Szekszárd, and then link these findings to the possible differences in the perceptions of ease in subsidy access and the perceptions of institutional environments surrounding communities.

In line with this, the present chapter introduces the main concepts behind the factors being analyzed and outlines how these variables might interact with each other. The description of each factor – notably institutionalized cooperation, informal talk and public subsidy access involves the discussion of relevant theoretical concepts and the relevance of the factors themselves in terms of possible interaction with other factors. This is always followed by a brief outline of the operationalization strategies.

3. 1. Theorizing institutionalization

The section about institutionalized cooperation has a twofold task. First I outline two abstract theoretical frameworks focusing on the emergence and role of institutionalized cooperation. This is followed by an argumentation (based on theoretical constructs again) on why informal talk might play a crucial role in the emergence, maintenance and cultivation and effect of institutionalized cooperation. The third part of the section presents my strategy to operationalize institutionalized cooperation based on individual perceptions of local cooperation.

There is extensive literature in political science, sociology, economics and business theory trying to theorize the substance and classify the variations of institutionalized cooperation. From the perspective of abstract explanation, we recurrently refer to Williamson's (1979) transaction cost approach, Granovetter's (1973, 1985) and Haakanson's-Johanson's (1993) network approach focusing of the firms' sociological embeddedness, social capital theories (e. g. Putnam, 1993) and Ostrom et al's (2002) conception of common pool resources.

These theoretical frameworks, while not being mutually exclusive, explain cooperation with two separate essential lines of argumentation: economic approaches usually refer to the need to limit "opportunistic behavior through external control" (North 1990: 37), i.e. prevent free riding. In contrast, sociological explanations refer to culture-based opportunities of interaction and communication in order to reduce risks stemming from bounded individual rationality, i.e. prevent the harmful effects of imperfect information and resulting inefficiency (Lazerson, 1993: 214-15). The logic of common pool resources suggests that institutional cooperation offers solutions when participating firms or individuals commonly use some resources, whose maintenance and development is only possible with coordinated interaction (Ostrom, 2002).

As it will be clarified in the chapter 4.1.1. and 4.1.2. discussing the unit of the observations and the unit of analysis, the network-based approach involves the application of the concept of industrial networks in which not only the patterns actors and institutions, but also corresponding inter-firm activities and resource flows are identified (Haakanson and Johanson, 1993). The reason for simultaneously applying these two rather contrasting approaches is that they provide rather different but equally important explanations about why inter-firm cooperation becomes important from the perspective of an individual firm. The New Institutional Economics (such as North 1990, Calvert 1995, Aoki 2007, and Hodgson 2012) approach reminds one that cooperative arrangements are important solely on the basis of rational profit maximization (as institutionalization might be capable to provide more

information, reduce uncertainty and set up incentives against exploiting business relationships). Very appealing narratives apply this line of argumentations in manifold contexts, such as medieval trade, guilds or open source software development (Greif 1993, Merges et al. 2010).

To put it briefly, the transaction cost logic focuses attention on individual motivations behind institutional structure. In contrast, theories centered around sociological embeddedness focus on the capacity of (institutional or non-institutional) context to influence firm-level decision making. Embeddedness means that the environment can hardly be disconnected from the atomized firm. Thus the environmental reality and its perception not only set the costs and benefits of action, but also shapes actors' goals. From the perspective of my research, the message of this tradition is that not only pure business-related utilities, but also community-level considerations might be important when analyzing the role of institutionalized cooperation. We should, therefore, see companies actively invest in maintaining cooperative networks for reasons to do not just with individual benefits and minimization of costs, but also other – business network – related reasons.

3.1.1. Operationalization

My operationalization strategy of institutionalized cooperation does not rely on one specific type of formal arrangements. There are organizational types of coordinated interaction between wine producers in Hungary, the most frequent being subsidized clusters and nonprofit firms besides the legally defined wine municipality system. However, to my knowledge there is no objective prior knowledge, based on which one would be able to select one specific family of arrangements and compare it in the two cases. Nevertheless my claim is that besides inter-regionally similar types of formalized cooperation, specific local formal or informal arrangements might be even more relevant from the perspective of actual business

or social benefits of cooperation (Gertler and Wolfe 2004). Thus it is worth paying attention to any institutional manifestation.

Secondly, even the goals of firm cooperation can be manifold, as this was already highlighted in the chapter discussing relevant empirical scholarship. There is extensive available literature on the role of cooperative institutions in providing community governance (e.g. providing coordination of common resource maintenance for firms in geographic proximity); providing schemes of shared investment to gain innovative capacities; creating infrastructural and trust-environment for supply-chain related contracting (e.g. industrial districts) (e.g. Porter, 1998; Ostrom, 2002; Hakansson and Johansson 1993).

Due to these reasons, the goal of the research is rather to explore locally relevant institutionalized cooperation through extracting wine producers' own narratives about these institutions. This means that cooperation will not be measured based on explicit characteristics of one defined set of institutions, e.g. clusters or wine municipalities. Instead, the goal is to explore the depth, content and importance of the cooperative landscape through analyzing perceptions and narratives revealed by in-depth interviews with wine producers.

3.2. Theorizing the role of informal talk in cooperation

As the study analyzes the importance of informal interaction in shaping cooperation outcomes in specific and geographically proximate groups of the above described units (SMEs), it is fruitful to understand formal cooperative agreements as institution-level manifestations of social setups. This is the core logic behind the inquiry.

As North (1990) highlights, informal social structures (such as norms, conventions, commons and practices) are both consciously and unconsciously shaping actors' behavior and expectations. Misztal (2002) provides a useful summary about the most prominent scientific approaches in explaining human cooperation. Most notably, rational choice, Durkheimian (normative-functional) and intermediary (or Tocqueville-like) approaches are distinguished

from each other. While the most important assumptions on the role and conduct of individuals are completely different in these branches of social science scholarship, all rely on non-formalized elements in their explanation of cooperative behavior. These elements include the amount of interpersonal trust and the capacity of meaningful interaction between actors.

Similarly, the concept of institution cannot be understood without paying attention to non-formal elements of actors' structure. Activities, actors and formal procedures have to be complemented by unofficial relationships, connections and exchange between them. This thesis looks at informality as non-codified talk and action – that is, the concept is not to be confused with extra-legality or corruption. My approach is similar to Helmke's and Levitsky's (2004: 727) stance differentiating between officially and non-officially communicated rules, regardless of being public or private.

The above traced characteristics of institutions establish the relevance of analyzing informal interaction in order to better understand the emergence, meaning and content of cooperation from the perspective of wine production SMEs (our unit of observation). As institutions are not placed in societal vacuum, their establishment will be highly dependent on how the relationships in a community (or set of actors) are working beforehand. Moreover, institutional operation is also embedded in social reality - thus the operation can also be better understood if informal exchange and institutional arrangements are analyzed in a combined manner. Conversely, institutions are elements of social reality affecting other layers of the same reality - thus informality can also be understood as a product of institutional operation.

In a nutshell, in abstract wording, the research seeks to understand how different institutional setups of wine production small businesses rely on and incentivize varying informal setups of social life with incentives that relate to accessing financial and other types of resources. In a less abstract formulation: if wine producers are capable to discuss common, more or less business-related issues with each other, they might also engage in establishing

institutionalized cooperation between their corresponding firms. Different local institutional realities might lead to different levels of informal discussion about business or community issues. Institutionalized cooperation might facilitate or replace informal patterns, while their operation is surely interrelated with informal realms.

3.2.1. Operationalizing informality as 'talks and deals'

While the role of informal processes in interaction is well-emphasized in social theories, the substance and manifestation of the term remains ambiguous. A possible disentanglement is the interpretation of informality based on the above highlighted role in cooperation. In line with this, Msztal (2002:33) emphasizes that informality can be seen as 'interactional resource' providing room for cooperative and reciprocal activities such as the exchange of knowledge or information – often outside the realm set by formally defined rules, procedures and relationships.

As Msztal (2002:36 citing Atkinson 1982:101–13) points out, informality is often manifested in interpersonal conversations and talk-settings, in which the flow, speed and direction of the exchange can be changed independently compared to formal settings, in which roles and behavior are constrained by formal social expectations (e.g. courtroom hearings). These settings also mean that participants have relatively stronger capacities to shape and change their way of interpreting reality and their own formal roles - pressures are only present in intangible forms like norms and culture (Msztal, 2002: 38).

My aim is to grasp the above outlined 'interactional resource' nature of informality through looking for informality in the discussion of business related issues, the exchange of knowledge about firm-level practices and actions rooted in these discussions. This means that I am looking for talk and deals - where deals are understood as talk leading to the action of at least one of the actors participating in the exchange. As the focus of the research is

cooperation related to public subsidy access, the analysis devotes special attention to informal talk and deals on the following topics:

- Exchange of information about the existence and relevance of forthcoming grant opportunities
- Exchange of knowledge/”know-how” about the way of submitting successful grant applications
- Technological “know-how” – Exchange about formal and procedural conditions of submitting successful proposals
- Relational “know-how” – Exchange about relevant actors, whose services or alliances potentially foster success
 - i. Professional services (e.g. lawyers, grant consultant)
 - ii. Corruption
- Coordination-motivated exchange
 - i. Partitioning applications on relevant grant announcement
 - ii. Shaping alliances to gain grants for collaborative projects

Another important dimension is the delineation of relevant exchanges based on the type of the relationship in which they occur. As conversation-like settings can occur in bilateral (dyadic), as well as multilateral settings (e.g. events where more than two actors are participating participate in the exchange), the research tries to stay agnostic about the relevant type. Instead, interviews will ask respondents to evoke their past exchanges in any possibly relevant settings. This agnosticism is well-suited to the analytical goal to both understand the role of informality separated and interlaced with institutionalized cooperation.

3.3. The outcome

The present study hypothesizes that both informal exchange and the existence of formal local cooperation (clusters) agreements affect Hungarian wine production firms’ capacities to

obtain public subsidies. While a proposition about the interaction between the variables is to be found in the subsection explaining the model (below), this section serves as a listing of relevant subsidies. I remain agnostic about the reason, adequacy and rationales behind EU-organized small business grants. Nevertheless, based on the general literature of SME assistance programs, Biggs (2002: 17) states that the most common rationales of subsidizing small business are job creation capacity, overcoming market failures and reducing transaction costs. Besides the theoretical argument, it is important to note that the goals behind EU subsidies rather political than economic in the case of agricultural funds: to provide a sustainable living for farmers and food security are the most often referred functions while economists' narratives focus on interest group domination (Bureau et al. 2012, Núñez Ferrer and Kaditi 2007, EU 1957).

3.3.1. How subsidies relate to talk and institutionalized cooperation?

In order to link public subsidy access with our above explicated two variables, informal talk and institutionalized cooperation, I use Szepesi's and Pogonyi's (2012) framework of community competitiveness. The construct basically interprets elements of community environment (i.e. informal relations and institutions) to shape and constrain actors' capacity to create economic or social value and become more competitive. (Note that the market on which competitiveness is pursued is up for interpretation). This basically means that the community competitiveness is the capacity of community environment to make individual actors in the community able to create value. The message is that value creation capacity is a legitimate measure for analyzing and comparing institutional performance.

3.3.2. Operationalization

The operationalization strategy in the outcome variable - as in the case of institutionalization - is based on perceptions and narratives. The essential question is if wine producers perceive cooperative setups and inter-firm talk as factors influencing how they live with and benefit from available national and EU-level subsidy schemes. This calls for an analysis of discourse

about the process of applying for subsidies, using subsidies and adapting to the rules connected to subsidies.

3.4. Hypotheses in light of concepts

The theoretical review provided the following explications and logical supplements to the hypotheses that have been drawn up based on the empirical literature.

Hypothesis: Institutionalized cooperation influences firm performance understood as subsidy access

- The most important takeaway from the perspective of institutionalized cooperation is that it is reasonable to focus both on individualistic rationales of cooperative institutionalization like coordination and transaction cost problems and on inter-firm connections that are rooted in the geographic and sociological proximity. No preliminary choice between the Williamsonian (1979) atomistic and Granovetterian (1985) embedded perspective is necessary. This agnosticism in the understanding of cooperation leads to an operationalization not exclusive towards one predefined institutional type. Specific attention will be paid towards institutional activities that are subsidized for being cooperative.

Hypothesis: Informal talk influences institutionalized cooperation

Hypothesis: Informal talk directly affects firm performance understood as public subsidy access

- Based on Misztal's (2002) conceptualization of informal talk as interactional resource not only talk as the exchange of messages but also its ability to create agreements is included in the operationalization. Thus not only talk (information sharing) but also

deals (agreements coordinating action) are included in the hypothesis. The revised version of the informal talk-related hypotheses is the following.

- **The extent and content of informal talk and corresponding deals influence institutionalized cooperation.**
- **Informal talk and corresponding deals related to subsidies directly affects firm performance understood as public subsidy access**

4. Methodological choices and issues

This chapter focuses on the details of the empirical study that the answers to the research questions outlined earlier draw on. First, the research design is introduced through the presentation of wine regions as the units of analysis and SMEs as the units of observation, the rationale behind in-depth interview-based data collection, the two selected cases – Szekszárd and Sopron, and the logic of sampling firms. After discussing these choices, justifications and rationales, the whole process of data analysis is explained starting with the transcription of interviews through the code development process until the logic of writing up. Due to space considerations, information about primary data and the interview guide is available in appendix.

4.1 Research design

4.1.1. Unit of analysis: wine regions as industrial networks

According to Hakansson and Johanson's (1993) definition, industrial networks are specific social networks consisting of firms which are by definition bi-dimensional. This means that these networks are not to be solely defined only with or through actors (firms) and institutions (the rules of the behavior), but also considering "*connected exchange relations*" (Hakansson and Johanson 1993 cites Cook and Emerson 1978) between them. This dimension is interaction with the interdependent activities and resources of the nodes (actors).

As the two dimensions of the network situate (constrain) the dynamics and operation of each other, this concept is appropriate to analyze the effect of social connectedness on business activity. In other words, as my research question relies on the exploration of formal and informal connections and their role in shaping cooperative institutions and corresponding effects on public subsidy access among individual firms, this concept is just appropriate to theoretically delineate subsets of firms in which interactions are likely to appear and appropriate to analyze.

Operationalization

After the theoretical delimitation, the operationalization ought to provide specific clarification of our units of analysis. An apparently arbitrary decision was to identify industrial networks in the Hungarian wine industry based on the geographic proximity of firms. However, this decision to focus on geographic proximity rather than other grounds for collaborating is also well-supported by the available (though somewhat scarce and often descriptive) empirical literature (for instance see Giuliani and Bell's 2004, Morrison and Rabelloti's 2009 in general or Polyák 2011, Nemes 2012 on Hungary).

Moreover, the legally defined institutional form of community governance in the wine production and viticulture industries is also based on regional firm communities – this is called the Hegyközség (wine municipality) system in Hungary defined by the 127/2009. (IX. 29.) FVM decree. However, my research does not intend to focus on these units. My a priori informal consultation with wine and SME experts suggest that Hegyközség borders are often not in line with community borders. Thus, my choice is rather to look at firm communities organized in geographic proximity around towns functioning as wine region centers.

4.1.2. Small business – The unit of observation

The research relies on a comparative methodology analyzing cases which are basically interpreted as geographically bound networks (or communities) of firms – thus a proper

conceptualization of their constitutive units is necessary. As our specific communities include small businesses operating in agricultural industries, the first step might be the clarification of what small business or SME's mean.

As Peterson's, Albaum's and Kozmetsky's (1986) descriptive study reveals, the term small business covers an extreme variety of definitions depending heavily on the legal, political, social or economic context in which it is produced. The goal of the usage in my thesis is twofold. First, it serves as a concept useful to build hypotheses and theoretical propositions about the behavior of firms. In this regard, no explicit definition is necessary – the aim is to highlight theoretical insights about how firm size (smallness) is associated with distinct particularities (behavior, opportunities, traits) in several dimensions of corporate reality. On the one hand, the choice of a solid definition is necessary from the perspective of variable effects (e.g. some effects are bound to a certain legally defined group).

Why not simply firms? - Small business vs. big business

Among other disciplines, a great deal of theoretical economics, management, organizational behavior and business policy literature focuses on the structural differences between small and large firms, their organization and functioning. For instance, the theories dealing with the emergence of corporations explain firm diversity through cost structure differences. According to Williamson's (1979) transaction-cost based theory of the firm, firm-level hierarchical structures emerge when market contracting is costly compared to bureaucratic coordination. As smaller size means smaller hierarchy, SMEs are more exposed to costs of extra-organizational contracting. As in-house solutions are scarcer, they have a comparably bigger incentive in reducing transaction costs. Transactions are not only understood here as formal market deals, but as any kind of exchange including informal reciprocities regarding knowledge and information sharing (see also Chapter 2).

From a less abstract point of view, Welsh and White (1981) highlight the conceptual distinctness of small businesses from the perspective of managerial incentives and practices, financial resources and applied time horizons. They argue that volatile competitive environments incentivize a short-term management perspective, while resource poverty (*“constraints on financial resources, a lack of trained personnel, and”* – Welsh and White 1981, para. 72) is also a general characteristic. Stewart et al. (1999) compared entrepreneurs, small business owners and corporate managers. Their inquiry is based on an operationalization where small business means that the owner is the manager, while entrepreneur is a subcategory of small business owners characterized by Carland et al.’s (1984) criteria. Results reveal that owner-managers are more likely to take risks compared to corporate managers and are more willing to innovate through the destruction of established patterns.

Operationalization based on the legal definition

European Union Law – an official recommendation by the European Commission – provides a clear-cut definition of SMEs in which three subcategories are identified. *“Micro, small and medium-sized enterprises are defined according to their staff headcount and turnover or annual balance-sheet total. A medium-sized enterprise is defined as an enterprise which employs fewer than 250 persons and whose annual turnover does not exceed EUR 50 million or whose annual balance-sheet total does not exceed EUR 43 million. A small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million. A microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million.”* (European Commission, 2003)

The legal delineation expressed above represents an easily applicable rule if it is combined with the restrictions of our cases (meaning geographic and industrial delineations) and can basically be used as a straightforward guideline in selecting the population of firms which is to be analyzed.

Identifying actors

My thesis operationalizes general managers as relevant actors with substantive knowledge about dealings and exchanges in local industrial – in this case wine-making – networks. In the case of very small enterprises this can be based on the general theoretical notion of the so-called “one-man-show” SMEs especially characteristic in the first stage of firm development (Thain 1969 cited by Smith and Miner 1983). This means that management and leadership authority tasks are highly centralized and organized around single persons. Another, Hungary-specific factor supports the manager-centered approach: business connections are often characterized to rely on personal ties rather than formalized institutionalized inter-firm dealings (Szepesi et al. 2009). Moreover, the World Economic Forum’s 2008-2009 Competitiveness Index concludes that Hungarian firms are particularly backward in leadership delegation (122nd worldwide) (WEF 2008). Another justification of this is Walter’s (2009) statement that the majority of Hungarian SME success stories rely on the “one-man-show” logic rather than planned corporate governance, making growth and profitability not easily sustainable.

4.1.3 Choice of data to be collected

My research basically relies on a single type of primary data: in-depth (qualitative) interviews with small- and medium-sized wine producers in the analyzed regions. The primary consideration was to obtain narratives provided by managers of as many different segments of local wine production SMEs as possible. The primary focus of the interviews was on the deductively highlighted factors of my research: formal and informal cooperative arrangements

and interpersonal relationships in the local wine production community; the content of these relationships with a special focus on developments and corresponding public subsidy access; reflections on taboos and the information happily shared with each other as well. Besides these, each interview started with drawing up a general picture about the wine production firm and its history.

The choice of conducting in-depth interviews instead of other types of primary data collection is twofold. First, as there is a lack of extensive prior research on the interaction between public subsidy access and institutionalized cooperation or informal talk, the separation of relevant and irrelevant observations is hardly possible for an operationalization suitable for quantitative data collection. In contrast, qualitative in-depth interviews might just be able to identify narratives and subjective perceptions about possible influencing mechanisms including the context of informal talk and deals and locate it in the context in which the interviewee makes her/his decision (Hennink et al. 2011 cites Wengraf 2001). Moreover, due to its multi-personal nature, the most logically competing qualitative method, the focus groups are able to grasp less sensitive and less personal experiences possibly hiding relevant information about interpersonal talks/deals around subsidies (Hennink 2001), making interviews more appropriate for an explorative exercise honing in on potentially sensitive, taboo issues.

The choice that one interview is conducted in each firm and this is prepared with the general manager with the company is supported by factors like the frequent incidence of the one-man-show nature of early SME development, the relative rarity of leadership delegation in Hungarian SMEs and the importance of interpersonal informal ties in the Hungarian economy (Walter 2009, WEF 2008, Szepesi et al. 2009). I expect these factors to also characterise the Hungarian wine industry. These factors have been explained in more depth in section 4.1.2. about the unit of observation.

4.1.4. Case selection and sampling

As it is outlined in section 4.1.1. above, cases were to be selected from the seven Hungarian historic wine regions. Two cases were selected, but not with the intention of comparative research – rather a more reliable grounding of the theory was the purpose. Still, a most-similar-systems-design was applied in order to understand diversity in informal connections (talk and deals, as outlined in Chapter 3), institutionalized cooperation and perceived public subsidy access in two contexts which are structurally similar to each other. My research identifies the following structural characteristics in which the difference was to be minimized: *the existence of urbanized center in the region, the industrial organization of the viticultural industry around the center, the relative share of white/red wine produced, and the presence of ethnic German viticultural traditions.*

A first consideration is the existence of an urbanized center in the region may be important in two ways. First, due to resource limitations, the existence of enough centrally located wine producers is possibly able to draw up a relevant picture about cooperation. On the other hand, the existence of a town or city in the wine region with a province-level administrative role might mean that informal connections and interpersonal ties might exist with relevant municipality and local subsidy allocating bodies. This status of City with County Authority is given in both cases, while Szekszárd is also the capital of Tolna county. Most of the other Hungarian wine regions are concentrated around localities with lower status.

There is no quantitative data available on the industrial organization of the wine municipalities around the city neither in Szekszárd nor in Sopron. While the last official statistical overview of Hungarian viticultural land use was conducted in 2009, but only the 2001 version is publicly available in full version. (Thus, instead of statistical data I relied on wine municipality information revealing the fragmentation of viticultural land and the fact that only minority of owners engage in bottled wine production. In Szekszárd approximately

900 viticultural producers are present from whom only 40-45 owns legal certificate to produce bottled wine and most producers are hobby winemakers producing on very small portions on land. This minority state of being bottled wine producers is even harsher in Sopron where out of approx. 1300 producers only 264 engage in taxed business activity and 20-25 engage in bottled production.¹

Another important factor is to have a similar structure of the types of wine produced. This is important, because a similarity might secure a similar status on the national landscape of wine market, and producers might face similar difficulties when marketing their wine. Hungarian viticulture and wine production overwhelmingly rely on producing white grapes and wine, and the typical Hungarian consumer is also oriented towards white wine types. In contrast, in both the Sopron and Szekszárd regions, more than 80 percent of the viticultural production is blue grapes, and red wines also dominate wine production. (KSH 2009 on red wine share, Bednárík et. al 2013 on red vs. white wine consumer perceptions)

The presence of ethnic German tradition is a common characteristic of the two regions and the history of several centuries is massively connected with the business of viticulture in both localities (Szenyéri, 1998; Bellér 1981). One might expect that local ethnic communities control certain kinds of cooperative capacities and maintain denser-than-average social ties with each other. This might be important from the perspective of the factor of informal talk and deals and institutionalized cooperation, thus providing a similar cultural soil for cooperation in both regions. (Knack and Keefer 1997).

Most of the above mentioned characteristics (ethnic german tradition, red wine orientation, size and structure) are met in at least one other wine region of Hungary: Villány. However, due to the lower status of the town it is organized around (possibly creating a different

¹ The data were informally revealed by formal and present wine municipality officials both in Sopron and Szekszárd.

environment for informal relationships) and my better a priori informal information sources about Sopron and Szekszárd, I decided to stick with the latter two.

Sampling of observations

Due to resource considerations, wine production firms located in or close to the town around the wine region were included in the study. This does not mean that firms were only selected from only one wine municipality as two out of three wine municipalities in the Sopron region are organized around the town. However, it has to be noted that this division of the Sopron region is rather only legal as non-procedural activities are mostly organized together and even the address of the wine municipality office is the same.

One important consideration was to select only wine producers who are present in the quality segment of wine production as well – meaning at least middle level wines are included in the product portfolio. The rationale behind this is that producers only competing at the bottom of the product pyramid have different (very limited) incentives to innovate, especially if they are small enterprises. Cooperation incentives and public subsidy access might also be generally different among small, not quality oriented producers.

Variance in the age of the producer was an important consideration. As Tóth and Török (2012) show, there are explicit differences in the knowledge sharing practices and innovation capacities between old and young producers. Younger managers communicate more, but (if not controlling for established family business) firms are typically also smaller and younger with less development capacities. Firm age is considered separate from managerial age, as well. A wide range of research underlines that starting SMEs face very different kinds of problems than established and embedded businesses. One of these is directly relevant from the perspective of our factor of informal connections and interpersonal networks: starting firms have to build their social and business ties in order to become embedded in the local

business community, therefore they will be more likely to engage in informal talk than older, more embedded firms.

Last but not least, variance in firm size is another factor of particular importance in sampling. As the legally defined category of SMEs is considerably wide, for instance significant differences are expected in the public subsidy absorption capacities due to the fact that some grants require a high amount of complementary private financing. On the other hand, there is considerable difference in the decision-making processes and organizational structure among micro-, small- and medium enterprises.

Therefore the purposive sample sought can be best described as: includes only firms which (also) produce in the quality segment, contains both younger and older managers (possibly ranging between 30 and 70), contains both firms established in the 1990's and relatively new wine startups, and contains small, medium and micro enterprises as well.

4.2. Data analysis

4.2.1. Transcription

The transcription process already started during the process of conducting the interviews – or as Hennink et al. (2011) label it, the ethnographic cycle of the research. A simple computer based transcription of interviews was applied, in every instance conducted by the author. Hennink et al. (2011) suggest that the ideal form of transcription is verbatim, meaning that all the words pronounced in the interview are included in the transcribed document.

For the sake of transparency, it has to be noted that the ten interview transcripts in this research are not verbatim in the strictest sense. Some standard questions asked by the researcher were sometimes marked only with some words referring to that question. Besides that, several times (but not systematically) unfinished, incomplete, reformulated sentences were skipped. However, there were no textual changes not mirroring the content of the interviews and no purposeful editing was made on the transcriptions.

Transcription was anonymized, and real names were replaced with fictitious names to ensure that the participants cannot be identified. The interviews were done in Hungarian language. Original anonymized transcripts are available upon request from the author.

4.2.2. Code development

The code development process of the thesis was basically deductive, meaning that the applied code system emerged based on the refined hypotheses outlined in Chapter 3 and the review of empirical and conceptual literature (Chapters 2 and 3) about the factors being analyzed. Only a small number of complementary codes were added inductively based on the interview transcription. This deductive strategy might be justified by the fact that the thesis looks for the narrative manifestation of abstract concepts derived from existing theoretical and empirical scholarship. Thus, locally relevant institutions, events, relationships or manners mentioned are not to be given new codes: a coding reflecting the underlying abstract factors is necessary in order to extract patterns on the relevance of the hypotheses (Hennink et al. 2011).

The following list includes the final set of codes applied.

Codes related to the hypothesis that institutionalized cooperation influences firm performance (understood as public subsidy access)

- The role of cooperation in general firm performance (not only subsidies)
- Influence through the subsidized nature of cooperation (cooperation is a money opportunity)
- Influence through facilitating better access to other individual or community level subsidies

Codes related to the hypothesis that informal talk and deals influence institutionalized cooperation

- Pre-existing ties fostering the establishment of cooperation

- The role of informal interpersonal talk and deals in maintaining cooperation
- The role of informal interpersonal talk and deals in improving (deepening, widening) cooperation

(The latter three code was inductively merged as not enough specific data was available to separate based on time)

- The role of informal talk in the evenness/unevenness of communication (the existence of smaller ‘epistemic communities’)

Codes related to the hypothesis that informal talk and deals influence firm performance (understood as public subsidy access)

- The role of informal talk and deals in general firm performance (not only subsidies)
- Exchange of information about the existence and relevance of forthcoming grant opportunities
- Exchange of knowledge/”know-how” about the way of submitting successful grant applications
 - Technological “know-how” – Exchange about formal and procedural conditions of submitting successful proposals
 - Relational “know-how” – Exchange about relevant actors, whose services or alliances potentially foster success
 - i. Professional services (e.g. lawyers, grant consultant)
 - ii. Corruption
 - Coordination-motivated exchange
 - i. Partitioning applications on relevant grant announcement
 - ii. Shaping alliances to gain grants for collaborative projects
 - **Codes developed inductively:** the role of informal talk and deals in avoiding problems of post-payment control

4.2.3. Data analysis

As the thesis relies on a deductive development of hypotheses, the role of data analysis is to compare these hypotheses against the narratives provided by the interviewees. The role of informal talk in shaping cooperation and subsidy access, as well as the role of cooperation in shaping subsidy access can be analyzed through a cyclical analytic method starting with the context-specific description of the applied concepts and finishing in drawing up explanations that can be compared directly against our hypotheses. During this process a continuous up-down movement is expected as questions on the level of theory and data are intertwined. This approach is similar to what Hennink et al. (2011:238) describe as the analytical spiral, except that in this case it is not used to inductively develop theory, but to examine deductively built hypotheses.

Moving from bottom to the top, the first encounter after the code development is the level of description, where the abstract definitions of concepts can become linked with the meaning it is used in specific contexts. On one hand this means the elaboration of a *thick description*, which refers not only to the abstraction but also to the nuances, symbols and interpretation with it is invested locally (Geertz, 1973).

The next step is the level of categorization, where concept-related narratives and perception patterns are categorized. This is conducted in two steps. First, the categorization of deductively identified and coded subcategories of concepts happens. Then another categorization happens based on the diversity in the samples (firm size, age, managerial age) and based on the cases. Additional, inductively-driven categorization is possible. These categories not only allow to link contexts and concepts with each other, but also provide ground for comparing different narratives and perceptions.

The later steps provide the room to compare against hypotheses: this is the level of explanation where thick descriptions, categorizations and comparisons are commonly used to extract qualitative evidence on the appropriateness of our hypotheses.

4.2.4. Writing up results

The writing up of the results of the analysis is not treated as a separate process, which is to be done after all the analytical results are extracted. Instead, writing up is treated as an inherent dimension of the analysis helping to check if the arguments and narratives provided meet the criteria of clarity, logic and conciseness. The guiding principle of the writing up is to provide coherent stories based on empirical data to compare against hypotheses. Thus the analytical chapter is organized around the hypotheses, both providing general choices and reflecting on nuances and variations of perceptions in different contexts and positions. Unequivocal issues and problems that make manifold interpretations or no interpretation possible are also underlined. The constructed argument relies on the logic of the code system, but strictly: the structure is independently adjusted to the insights extracted from the data.

5. Analysis

This chapter provides an analysis of the evidence provided by the qualitative research. The chapter is organized according to the logic of the three main hypotheses:

- Institutionalized forms of cooperation enhance firms' public subsidy access;
- Informal talk and agreements facilitate the institutionalized cooperation of firms in geographic proximity;
- Informal talk and agreements directly affect public subsidy access of firms due to knowledge sharing and transaction cost reduction;

This means that the below discussion expands on wine producers' perceptions and narratives related to the influence of institutionalized cooperation on firm performance (in general and

more narrowly understood as public subsidy access), the role of informal talk and agreements on establishing, improving and nurturing institutionalized cooperation and the influence of informal talk and agreements in informal settings on the public subsidy access of firms. Sub-topics and nuances in each of the sections are partly discussed on the logic of the code system, partly on structural factors that seem to be causing variation in revealed stances related to the hypothesis. Each section starts with a brief statement on the confirmation or falsification of the respective hypothesis and then continues with an exploration of the choice and presentation of alternative narratives and factors causing variation.

5.1. Cooperation and performance

The first hypothesis reflects on the role of institutionalized cooperation in being a central factor affecting firm performance through facilitating better public subsidy access. This hypothesis is only partially confirmed as there are specific patterns of influence, but the wine producers asked generally do not see cooperation to be the most important factor facilitating individual public subsidy access. Besides that, a number of performance but not subsidy-related aspects of institutionalized cooperation were mapped in the research.

5.1.1. Formal cooperation in wine marketing

To start with the non-subsidy related performance influence of cooperation, two general categories of institutionalized cooperation can be identified, each exerting influence on firm performance differently. First, firms in both wine regions are engaged in several institutions facilitating the cooperative marketing and sales activity of firms. These institutions are most often basic frameworks to facilitate the local or national sales activity of firms through providing unified region-level promotion techniques, joint appearance and collaborative event organization. The most often used institutional forms are wine marketing nonprofit firms, wine road associations and sometimes clusters. Clusters and more importantly nonprofits are forms in which an independent (not wine producer) management coordinates operative tasks while producers also participate in the design and strategy of the organization. Associations

are coordinated by the cooperating winemakers themselves. The most important characteristic of these associations is that they usually are subsidized by EU development funds and most of the cooperative activity requires little financial investment from the wine producers. This description of subsidized cooperation forms is in line with what local producers revealed in both regions.

These marketing-related cooperative forms thus basically create business value simultaneously through coordinating and financing marketing activities. This aspect proved to be almost unequivocally a central factor when considering the efficiency of these institutions. A rather contradictory story can be extracted. Basically every interviewee admitted that joint marketing activities are to some extent able to enhance regional brands and promote sales through the collaborative event organization, unified region-level activities related to both national marketing and local tourism-related promotion. However, the perceived importance of these cooperative forms (and their activities) is far from uniform among different producers, while there is a specific and almost homogenous dissatisfaction towards subsidized forms of cooperation.

The perceived importance and extent of performance enhancement by cooperation seems to vary with the attitude towards market competition and cooperation. This means that while interpersonal communication and agreements are unquestionably perceived as means to create cooperation, the perceived desirability of this kind of interaction is sometimes questioned. On the one hand, often the ‘we can only win together’ narrative was formulated, seeing this tension between cooperation and competition as mild. Eight out of ten participants looked at more in-depth and broad business-related cooperation as a generally desirable goal. The driving concept here was most often marketing-related: a strong regional brand supporting everybody’s market opportunities was seen as the ideal instead of individual winemakers promoting their own brand(s) nationally and internationally. This does not mean that there

were no taboo topics (as will be clarified in section 5.3 below), but this narrative looks at interpersonal talk and its institutional results as a desirable way of doing things in a more innovative (and effective) way. The contrasting opinions were, on the other hand, radically different: older (one small and one medium-sized) producers emphasized market competition as a natural limit to cooperation. While they generally did not see themselves as being against cooperative institutions, they referred to existing marketing-oriented cooperation schemes as being empty not only because of culture, but due to their perceived business reality that sales activity can and should be exclusively done individually. In their view this makes marketing-related cooperation practice a mere way of gaining subsidized promotion and an even more fruitful wealth-extracting formula for the managers of the cooperation. Thus they considered no or little point of talking about improving cooperation – rather a clear agreement and delineation of common activities is what they considered necessary. This logic is in line with the one-man-show attitude of what has been seen as the typical Hungarian small business owner, who considers profit and value creation as indispensable to his managerial role and authority (Walter 2009). Still, it is noteworthy that in this small sample of winemakers, this was very much a minority view. Overall, marketing- and more specifically brand-related cooperation is seen as the most desirable strategy by the majority of study participants, with efforts in this regard in Szekszárd working much better than initiatives in Sopron.

Subsidized marketing-related cooperation – blessing or curse?

Besides questioning the extent of subsidized cooperation's effect, interviewees also lamented about the long-term effects of cooperation-incentivizing subsidies. The overwhelming narrative was that the cooperation often remains on the surface and there are generally no 'organic' ties behind this kind of cooperation. The story is often more about accessing EU money through establishing cooperation on paper and not engaging in joint action except the events and promotional spending that is included in the condition of grants. This view was

reinforced by the perceived changes in the EU support system as well because less cooperation subsidies were accessible in the second part of the 2007-13 programming period and much of the formerly praised cooperative marketing schemes started to struggle and became empty according to my interviewees. Nevertheless, a number of my interviewees, regardless of structural features of their companies, lamented that winemakers not only incentives and institutions but also the neglecting attitude of wine producers to be blames. It is often noted that the refusal from contributing own financial resources lead to the relative failure of these forms. On the other hand, wine producers in Szekszárd talked about serious financial commitments in other types of cooperation (examples) and often emphasized the role of the community and social capital (as it will be discussed in section 5.2 below).²

5.1.2. Institutionalized informal cooperation for performance

Wine producers in both regions revealed the existence of other, non-formalized, but institutionalized types of regional³ cooperation. These were event-focused, systematically organized wine tasting events where not only wine producers, but also prominent public figures from the region and national wine industry experts and salespeople participate. While such institutions exist in both regions, their perceived importance, centrality and content was said to differ heavily.

In Szekszárd, these thematic events (every month other local wine types are tasted) were seen as the symbols and manifestations of social capital and successful wine industry cooperation. The prestige of the setup (established in the mid-2000s) was unquestioned and interviewees also stated that an overwhelming majority of the quality segment (and others) participate regardless of size or age. These events consist of a rather strict first part where a handful of wine samples are tasted and an independent jury grades, while producers give immediate

² Thus I consider this story as an additional though not explicit reference on the importance of social capital (and possibly informal exchange) to establish long-lasting formal institutions.

³ 'Regional' is used as a shortcut for wine regions, not NUT development regions.

feedback to each other. In this sense an important value of the institution is seen in creating a context where quality oriented attitudes can flourish: a culture of improving wines might be promoted through raising the standards, while direct knowledge sharing is also present in forms of tricks, tips and constructive critique. Another perceived role and strength of the institution was stated by the interviewees, which is that the second, less strict part of these events is a supper where informal ties can be strengthened and provides ground for building networks and sharing information. The general value setting and community shaping effect of the cooperation was underlined as well. This, combined with the gratitude and acknowledgement towards the founders of these events, can be treated as indirect evidence on the perceived performance enhancing and social capital creating effect of this type of institutionalized cooperation, albeit informal. However, these institutions were just as well not central when considering factors enhancing public subsidy access.

Similar events in Sopron are rather fragmented and less institutionalized. These types of institutions were often not included in the first mentions when producers were asked about cooperation in general. Several wine tasting clubs operate in the region and the city, but none of them is perceived to be a ‘must attend’ context. Instead, these are seen as facultative institutions focusing on wine but not on the professional and community development of the wine makers. Only one of my interviewees discussed the content in-depth and his biggest complaint was that even these clubs are often incapable of facilitating honest critique and participants’ wine quality (just as other business related matters) remain taboos.

5.1.3. Summary

No single statement was revealed focusing the role of any institutionalized cooperation in subsidy performance except subsidized (and often disliked) forms of cooperation. This influence was a rather contradictory story, because direct influence was manifest but not importance and long term overall worth. These latter were seriously questioned as subsidies

on cooperation were perceived to incentivize a culture of not contributing to common pool resources (free riding) (Ostrom 2002, Olson 1965).

While this influence on subsidy access certainly exists, individual subsidy access seems to be not directly affected by institutionalized cooperation. However, one additional possible chain of influence was traced up during the research: as the Szekszárd example revealed that institutionalized cooperation can be successful in facilitating social capital, an indirect effect on interpersonal interaction might be conceived. Namely, social capital might affect performance and institutions facilitate social capital at the same time. Thus here only partial evidence can be extracted, while the second part of the chain (reflecting on the hypothesis informal talk and deals influencing public subsidy access) will be discussed under section 5.3

5.2 Informal talk and cooperation

The second general hypothesis is that informal talk plays a prominent role in facilitating cooperation of Hungarian wine production SMEs and this can be confirmed based on the ten in-depth interviews conducted in the Szekszárd and Sopron wine regions.

5.2.1. Establish, maintain and nurture institutions of cooperation

Winemakers discussed in quite some detail the importance of community building among local winemakers, an effort independent from the formal institutionalized form. In order to understand how producers relate to such activities, first I present interpretations on what kind of barriers have to be eliminated through informal community building in order to reach successful institutional life. Basically two (although intertwined) kinds of these barrier-narratives are apparent.

The most penetrative perception of barriers to create cooperation (regardless of whether it is institutionalized or not) was that both local and national culture is (or in the case of successful examples, was) a hindering factor of joint and institutionalized action. These pessimistic

views of culture are part of a world view that usually reflects on both failed examples of cooperative efforts in the past in the corresponding wine region and also on social-political issues. These latter most often reflect on the heritage of communism, the inefficient and immoral values of the Hungarian society and the corresponding elements of Hungarian business culture.

Thus it is not surprising that another manifestation of this narrative reflected on the situation of the present. The claim relied on a perception of Hungarian social reality that depicts it as an environment being structurally corrupt and on individual level facilitating lazy and selfish mentality and short term optimization (making cheating and free riding the norm in cooperation). This narrative was complemented with specific notions on the way Hungarian business works like refusal to invest in cooperative or innovative activities, isolation and refusal to share business knowledge, tax evasion, rent-seeking and jealousy towards those who are successful.

The heritage of communism was interpreted as a legacy that caused general moral and social decay in Hungarian society, meaning that the micro fabric of society had and has to be rebuilt. On one hand, for the interviewees this means that 25 years were not enough to establish enough or appropriate new institutions and – even if there are some promising forms – much of the work is still to be done. On the other hand there was a claim suggesting that communism heavily and lastingly influenced culture, individual values and attitudes. This was said to represent itself on the concrete institutional level like hostile attitude towards joint means of industrial activity (the experience of collectivization) and also on the more general level of attitudes relating to sharing and caring about others.

This narrative, often complemented with personal stories of grievances, was pervasive – eight of the ten interviewees reflected on it, regardless of being part of successful or failed cooperative institutions. It is important to note that these pessimistic statements are similar to

the picture that empirical research provides on the sociology of Hungarian society and business activity. (*These studies as well offer differing frameworks of interpretation*) (Szepesi et al. 2008; Táarki 2009, Boda and Medve-Bálint 2012)

This meta-narrative – often mentioned as a basic starting point – was used as the basic reality where the role of interpersonal informal talk is embedded. It is noteworthy that despite this widely shared pessimism about the general Hungarian (and more widely post-socialist) business climate, seen as essentially uncooperative, the participants in this study exposed two contrasting narratives about the success of cooperative attempts, these two narratives overlapping with the two winemaking regions. While winemakers in Szekszárd were mostly positive about local collaborative efforts, their Sopron peers were much less so. It appears that the main source of this variation is rooted in the difference between the two studied cases – Sopron and Szekszárd. Szekszárd can be considered as the region where – despite the presence of the same pessimistic meta-narrative – the overall story is that the community was capable of achieving institutionalized cooperation. In contrast, in Sopron informal talk (or more precisely the lack of cooperation related talk content and the rarity of exchange) is seen as a manifestation of the meta-narrative itself.

While the contents, limits and hypothesis-related aspects of these institutions are depicted in section 5.1, here the aim is to provide a nuanced view on what is the role of informal talk and what is the way informal inter-personality becomes important. Reflecting on the means, a wide range of stories were identified usually by embedded and authoritative figures. These actors engaged in interpersonal discussions before trying to establish the tradition of inner wine tasting events among a wider circle of local wine producers and trying to institutionalize it. An instance of the form is organizing dinners in wine producers' houses where institutional design, planning and target setting might happen. A similar story was revealed on more recent efforts to attempt common branding and labeling of particular products. However, the

reflection on the instruments is not a statement that informal contact did not exist before the 2000s, when the first important institutionalized cooperation was established in Szekszárd. The distinguishing feature of these more recent forms of cooperation and community building is their role: the goal was not just maintaining friendship or good neighborhood relations, but to collaboratively set common targets and jointly decide on the content of institutionalized cooperation in the future. To be more precise, most winemakers interviewed in Szekszárd explained that the reasons for collaboration – while rooted in local social capital – were business-driven and had an explicit commercial or innovation goal. This suggests that we see a case where informal talk and agreements (happening in the form of informal events like dinners or discussing ongoing issues on telephone or wine tasting) are clear manifestations of social capital playing active and central role in establishing and shaping cooperation.

A number of Szekszárd participants referred to the role of interpersonal contacts in community building – in their narrative, the outcome is the institution but the task is sometimes identified as continuously confronting and modifying the above presented pessimistic meta-narrative. While younger, usually micro- producers more often just refer to the openness of informal dealings (they are not automatically included in the informal contexts where deals happen, but their opinion and contribution is welcome if they request to participate), older producers (all of them identifying themselves and each other as the pioneers of institutionalization) present this narrative. A very logical and oft-referred to complementary statement is the role of leaders in this process – often specific producers were mentioned, who were said to have played a crucial role in informally facilitating the development of institutionalized settings. This is in line with the theoretical remarks of Schein (1983) on the role of founders in creating organizational culture and Burt's (1999) account on the social capital of opinion leaders.

From this perspective, the Sopron story is rather clear: reference to the meta-narrative is used as a rationalization for why institutionalized cooperation does not happen as a bottom-up process and why the existing, subsidized marketing-oriented institutions (mainly clusters) are often not efficient in embodying sustained, committed and long-term cooperation and joint action in business-related activities. Among Sopron participants, a recurring theme was that even the small number of local producers who became members of these cooperation schemes often refrained from participating in the improvement of the cooperation and informal interpersonal dealings. Instead, interviewees in Sopron tended to focus on past grievances and represent narrow-minded short term self-interest-based negotiations. These experiences are understood as being consistent with the meta-narrative that the culture is hostile towards joint action and local wine-makers – unlike their Szekszárd counterparts – are pessimistic and either disappointed or disinterested in initiating forms of cooperation that could over time institutionalize within the local winemaking community. The importance of informal talk in establishing cooperation becomes apparent from this story as well, with interviewees often complaining about the sparseness of these deliberations. A more interesting conclusion is that due to their perception that interaction is not only relatively sparse but its content often does not facilitate institutional improvement, even self-labeled cooperation evangelists revealed that they will refuse to facilitate communication with ‘them’ in the same framework again. That is, if common goals are not set through deliberation, informal talk disappears, making future institutional innovation even more demanding task.

These perceptions are sometimes even explicitly linked with the structural characteristics of the firm ecology. On the one hand quality oriented young or mid-aged producers in Sopron complain about the survival of the “old” mentality in the region – that is they state that most (but not all as often their fathers are producers as well) refuse to keep up with the pace of innovation in the 21st century in quality as well as cooperation. While there are stories of both

types of exceptions, this tension is based on a rather sharp age-based delineation: younger quality producers seeing themselves in the legacy of hostile environment that is reinforced in the community. In short, the Sopron story is about failed informal efforts to create cooperation by small number of innovators, while everybody refers to the general lack of cooperation culture-narrative.

5.2.2. Unevenness of informal ties in local cooperative institutional settings

In line with the highlighted empirical literature (section 2.3) on the role of interpersonal ties in inter-firm cooperation (e. g.: Breschi and Lissoni (2001); Chetty and Agndal's (2008); Jordan et al. (2007)), my ten interviews also revealed patterns of unevenness and informal clustering inside institutionalized cooperation formulas. Basically all interviewees referred to the fact that ties are not evenly distributed. From the firms' perspective this can be conceptualized as the existence of epistemic communities: circles of professional friendship developing inside the broader informal cooperative institution. These firms establish ties between each other based on good interpersonal relations, but also refer to business-related reasons of the division: similar orientation towards quality, innovation, similar structural features (size, age) and most often, but not independently from the latter, similar attitudes towards cooperation goals and tasks.

These patterns are somewhat different from that expected based on the empirical literature meaning that remarks did not contrast firms or entrepreneurs with more or less connections in the local community. Instead the content of connections were different, in two ways. Each of the narratives focused on clustering inside the institution: interviewees referred to have denser informal talk with a subset of others who are similar in terms of firm size, managerial age or cooperation attitudes. Unevenness manifests itself as this type of clustering, most often underpinned by managerial and business-related affinities rather than personal ones, meaning

that some of these epistemic communities participate more in the maintenance and improvement of cooperation than others.

In Szekszárd, one loosely defined epistemic community can be identified playing central role in organizing the institutional realm. Other communities might or might not have identical numbers of ties but their role is less central (sometimes due to their contrasting approach towards the institution but mostly due to their less dominant position of being young, small or both). Nevertheless my interviewed micro-producers referred to this situation as natural and stated that their opinion is heard upon request. This means that, from the perspective of the institution, unevenness here means different (but never nonexistent) capacities to influence the rules of the game (see especially North 1991).

In Sopron, the more appropriate description of unevenness is that there are actor-groups with different capacities to innovatively influence the rules of the game (the framework of institutionalized cooperation). This is a rather different picture where the differentiating factor between these sub-communities is most often the general attitude towards cooperation. Thus, while all of my interviewees considered themselves to (closely or less closely) be part of the clique which works for deeper cooperation, they also referred to a cultural clash with the others participating in the same marketing-oriented cooperation. This means that my interviewees depicted a situation where institutional improvement is hindered by epistemic communities they do not agree with. Often these ‘backward thinking’ groups were depicted as the stronger faction seriously hindering cooperation. This sharp tension was also said to result in much sparser inter-group connections and generally more bitter relationships.

5.2.3. Summary

Generally it can be highlighted that the hypothesis of informal talk and deals being a central factor shaping institutionalized cooperation outcomes is confirmed. The qualitative analysis of

the ten in-depth interviews shows that informal talk was seen as an instrument and a context to set up institutions and set joint tasks and targets of collaborative action. A central finding is that this perception is embedded into a pessimistic meta-narrative regarding the auspices of business cooperation in post-socialist Hungary. This means that actors explained the occurrence, content and cooperation consequence of informal talk to using this narrative. In Sopron, sparse and often unsuccessful informal exchange within institutions is seen as a manifestation of the above. In contrast, Szekszárd producers with more successful initiatives considered informal exchange a kind of social capital able to alter the post-socialist status quo. The analysis also revealed that informal exchange between firms inside cooperative efforts generally cluster subsets of firms. This clustering is often based on company size, managerial age or attitude towards cooperation, making the concept of epistemic communities adequate in describing the functioning of institutionalized cooperation. In Szekszárd, unevenness was observed in position to influence cooperation, while in Sopron cooperation attitude proved to be the most important distinguishing dimension.

5.3 Informal talk, deals and public subsidy access

The third and perhaps most important hypothesis of the study focused on the role of interpersonal, informal exchange (talk and deals) in influencing individual public subsidy access. This hypothesis can be confirmed in broad terms, however the perceived importance of different kinds of informal talk is quite different from what was assumed based on the literature. The relative importance of informal talk in this contexts varies with the specific topic. Thus informal talk for coordinating action, for enhancing individual ‘how to’ knowledge and for facilitating reputational knowledge show contrasting patterns. The discussion starts with general (and not subsidy-specific) topics and taboos of informal talk, and then discusses subsidy-related knowledge and network sharing.

5.3.1. General direct performance influence of informal talk

The ten interviewed producers generally showed a nuanced and positive picture of how interpersonal talk might affect performance. However there were several variations in the perceptions on real-life appearance of these patterns.

The most important (though not unequivocally perceived) notion is that the concept of epistemic communities (a closer subset of fellow managers with whom exchange is more in-depth and more frequent) is just as real without institutions as within the institutional framework, whether formal or informal. However, I consider this clustering not as important as within the institutions because the multi-level nature of social interaction is commonsensical. The variation in this matter is very similar to what was depicted above regarding the institutionalized version: Sopron producers tended to reveal that they engaged in minimal deliberate interaction with producers outside their close circles (though not lying or refusing to answer questions). In contrast, Szekszárd producers most often said that they are happy to ask questions and give answers to each other, and this worked outside their inner circles: professional friendship means deeper interaction, but beyond these a living conversation is kept alive with winemakers regardless of structural or positional differences like size, age or authority.

The second general notion mentioned by a majority of producers in both regions is that professional secrecy exist. Topics which are just not to be discussed or brought up about each other's business are most often centered around the small private secrecies and 'magic recipes' of wine production. Nevertheless most of the winemakers refer to hiding wine technology as just part of the marketing-oriented mysteriousness of some wine makers. They think that secrets are not real secrets and the sharing strategy means quality improvement on the long run what is more desirable than creating business value through marketing humbugs.

Other business-related secrets even facilitate the construction of taboos – topics which are not comfortable to talk about. For instance, financial matters are an almost self-evident and undebated taboo and most producers also highlight that it is most often not appropriate to share sales contacts or ask about them. This latter seems to be the reality, while in theory it is contested by several producers in both regions. This seems to be a clear cleavage: while almost everybody told that speech is not free in this context, the competition-cooperation tension (and correspondingly the one-man-show and the cooperation-oriented attitudes, as explained in section 5.1) seems to be directly relevant here.

5.3.2. Informal talk facilitating subsidy-related network knowledge

Sharing reputational knowledge and suggesting to each other professionals and grant writing firms was not only one of the most frequently (in fact always) mentioned theme of sharing information related to public subsidy access, but grant writers' revealed importance in the subsidy process made it the most central part of the hypothesis. This is so despite the fact that some of the smallest firms interviewed had not yet hired any of these consultancy professionals.

To make the relevance of grant writers more clear, it is important to note that generally two kinds of institutional frameworks exist to support Hungarian wine producers in accessing EU funds. First, there is the institutional framework of the Common Agricultural Policy (in Hungary operated by MVH, the Bureau for Agriculture and Rural Development), allocating normative and quasi-normative support schemes like territory-based funding and viticulture land restructuration support, and smaller innovation grants. The bureaucratic and administrative process as well as the underlying conditions are perceived among my interviewees clearly as easy and not requiring additional support from grant writers. The other set of subsidies are part of the EU Development and Cohesion funds, most often subsidizing wine tourism, facility building and bigger technological innovation-related subsidies. The

conditions and administrative as well as financial and technological requirements behind these subsidies, including the post-payment control process, are perceived as being seriously complex, time-consuming and an activity that requires professional knowledge (law, economics, EU) and a nuanced understanding of specific subsidy schemes. This is why firms specialized in wine industry clients operate in the grant writing industry. Most of the producers considered themselves to be competent and able to execute grant writing processes, but just not willing to spend much time on them. *(This attitude is in line with the one-man-show logic expressed several times above, as is the story of one bigger wine producer of managing a project worth almost 1 million euros alone and saving 50,000 euro for the price of a year-long 'blood and sweat').*

The fact that each of the interviewed managers (and not only those who already applied or won funds) stated that he has got grant writer-referrals from other producers is an interesting manifestation of the centrality of grant writing firms in innovation subsidies. Moreover, even micro firms without projects subsidized from Development or Cohesion Funds were prepared to apply for such grants in the near future – if conditions were appropriate. In this preparedness, every producer revealed relying on informal talk-based reputation mechanisms (but not everybody chose based on this in the end). An additional nuance is that bigger, older firms which already engaged in such projects stated that informal talk was important in delineating possible consultants, but then price (most often given in proportions of the accessed subsidy) considerations mattered also.

The central role of grant writers is also eloquently illustrated by one gossip-like story that refers to coordination to avoid competition between firms at grant opportunities: the medium-sized local firms were told by a grant writing company hired by these different local firms to engage in different types of tourism-related facility projects to make winning possible for both. For sake of privacy, I do not include the region here.

5.3.3. Subsidy-procedure-related informal talk and deals

Upon targeted and focused questions, almost all winemakers confirmed that interpersonal discussions on the procedure of applying for grants as well as forthcoming grant opportunities were discussed with other managers. Just like variation in other types of informal exchange, the frequencies of such talk were said to be aligned with epistemic communities. However, this was not the most important remark, as several times people said that it was natural and not exclusive to talk about such matters, possibly even with producers not in the inner circle. Moreover, responses to my questions often were concise, only revealing the existence of such talk. These ‘Yes, we discuss, of course’-like questions might also show that this is not the most central theme of exchanges. This might be in line with the perceived easiness of CAP-related subsidies and the need of hiring grant writers in the case of EU Development/Cohesion Funds generally. Instead of the process producers said that they talk about whom to hire to oversee the process.

However, a specific process-related topic was sometimes explicitly referred to and its existence several times confirmed without offering details. This is knowledge sharing regarding post-subsidies controls. The complexity and harsh administrative requirements related to post-payment instructions were said to make informal advice sharing necessary about documentation, labeling and fulfillment of hygienic rules in case of innovation support grants. Additionally, on a gossip-level this was complemented with reflections on informal deals related to post-payment cheating (*e.g. selling subsidized machines before the mandatory keeping period and asking the neighboring winemaker to lend his similar machine for the controls*).

In Szekszárd, one other type of informal talk was mentioned, reflecting on the desirability of applying for specific funds. On a gossip-level, producers speak about other producers’ subsidy choices, for instance criticizing subsidized tourism innovations that are perceived too

excessive and structurally not feasible. However, a related rule of loyalty is also mentioned: these voices always remain in the background and no explicit community shaming or blaming is tolerated.

5.3.4. Informal talk and subsidy-related technological knowledge sharing

Another unequivocally revealed type of informal, subsidy-related discussion between grant writers was rooted in the topic of technology. As noted in section 5.3.1 above, while some producers are perceived to hide some production secrets, generally technology and most importantly machinery and infrastructure-related issues are discussed. An individual subsidy-related aspect of this is to be highlighted: technological decisions are perceived to be embedded in the incentive environment created by public subsidy frameworks. A recurring example mentioned is that pricing and other conditions offered by technological suppliers are based on the market distortion of subsidies. Producers feel that ‘their’ benefits are exploited by other actors in the supply chain, often creating no practical value. One such example is the hidden overpricing of tractors by charging heavily for the maintenance support required by subsidies. Thus technological choices are considered in a context that is heavily intertwined with how suppliers align to the framework (the narrative is how fair they are). Besides sheer technological ideas or experiences, this is a frequently mentioned topic of informal talk-based knowledge sharing. Nevertheless, it has to be noted that this topic is still perceived to be natural and ‘*not a big deal*’ to be discussed, as is general talk about the how to? and which to? in applying for subsidies.

5.3.5. Summary

The hypothesis that informal talk and deals influence individual public subsidy access can clearly be accepted, while noting that the mechanisms drawn from the qualitative research work differently than expected. Knowledge sharing (both related to process-related and opportunity) subsidies are clearly topics of informal talk. Nevertheless rather reputational and relational information sharing like exchanging experiences like supplier and consultancy

choices seem to be central in facilitating subsidy access. On the other hand, this is in line with the literature on the sociology of Hungarian businesses, suggesting the importance of business partners and personal affairs (Szepesi et al. 2009). In this sense, the central observation that reputation mechanisms are operated through informal talk related to choosing suppliers and grant writing firms can be considered as additional transaction cost reduction strategies through contract provision, very much in line with the transaction cost argument depicted in Chapter 3 (e.g. Williamson 1979). Additionally, a range of topics independent from public subsidy access were identified as performance enhancing elements of informal talk, such as technology, event management and promotion.

5.4 General summary on falsification choices

Basically the analysis of the ten in-depth interviews provided enough insights to test the main hypotheses of the research.

- The hypothesis that institutionalized forms of cooperation enhance public subsidy access proved to be only partially true. Institutionalized cooperation schemes are definitely not perceived as influencing individual public subsidy access. However, a specific type of influence is present: when the cooperative institution itself is subsidized, specific joint marketing or promotion activities become cheaper, leading to cooperation. However, narratives questioning the relevance of such collaboration were present also as an overwhelming reflection on the inability to maintain schemes being subsidized initially. The variation in stances was linked to structural features of firms and producers.
- The hypothesis that informal talk and deals contribute to cooperation seems to have been confirmed. The relevance of informal talk is embedded into a widely shared general meta-narrative about Hungarian culture manifest in mentality, society, post-socialism and business culture. These perceived institutional and cultural specificities

embed narratives of transcending them when successful cooperation is perceived and narratives about backwardness of others when efforts fail. Informal talk (content and frequency) is correspondingly seen as an instrument to create cooperation or the manifestation of the hostile environment. Regional and firm-specific variation was observed, as well as a general clustering of talk inside institutionalized cooperation (with creating harsher intra-group borderlines in the Sopron region than in Szekszárd).

- The hypothesis that informal talk is a direct influencing factor in public subsidy access is also confirmed. Knowledge sharing about processes and opportunities is less important than sharing reputational information on grant writing professionals and firms or suppliers of subsidized products. While in this research these are not treated as institutionalized, the clear reference to using such mechanisms to reduce transaction costs brings up the opportunity of such conceptualization.

6. Concluding remarks

The research puzzle of the thesis was the importance of sociological informality in the public subsidy access of Hungarian SMEs. This fundamental question emerged on the one hand from streams of research in sociological research on the operation of Hungarian economy emphasizing the importance of informal connections and/or trust in inter-firm relations. The cooperative problems revealed by scholarly research were linked to the amount of EU subsidies allocated towards firm cooperation in the 2007 and 2013 development period and the amount of subsidy granted in CAP for viticultural firms. Thus, the basic dilemma was the following: to what extent are capable informal inter-firm connections shape the realm of institutionalized cooperation and firms' public subsidy access.

The research questions were formulated in line with the above in the following manner:

1. How do winemakers describe the role of informal talk in setting up institutionalized cooperation with other Hungarian winemakers, if at all?

2. Is informal talk a crucial element in accessing EU funds for development and innovation and, if so, how does it matter for this process?

Based on the review of empirical and conceptual literature, the following hypotheses were set out:

- Institutionalized forms of cooperation enhance firms' public subsidy access;
- Informal talk and agreements facilitate the institutionalized cooperation of firms in geographic proximity;
- Informal talk and agreements directly affect public subsidy access of firms due to knowledge sharing and transaction cost reduction

The qualitative empirical research of ten in-depth interviews was able to compare against the hypotheses. In light of the perceptions and narratives revealed by wine production firm manager of diverse age, firm size and business strategy, a more specific and reformulated understanding is possible.

Institutionalized forms of cooperation only affect public subsidy access if they are subsidized (in the form of financed business activities). Individual subsidy access seems not to be influenced.

Informal talk and agreements clearly facilitate institutionalized cooperation through providing context for designing institutions, discussing improvements and harmonizing individual goals. The content and frequency of informal talk is however not independent can be seen as both manifestation and a deviation from an overwhelming pessimistic narrative about Hungarian societal and business cooperation.

Informal talk and deals directly influence firms' individual subsidy access through facilitating subsidy-related knowledge sharing and coordination. The reputation mechanism behind grant writing consultancy choices proved to be more important, while supplier-related technological can be interpreted as a transaction cost reduction scheme. These latter can possibly be understood even as self-sustaining institutions.

Of course the research faces an important set of limitations as well. Namely, the design of the empirical inquiry relied on two similar cases in order to test the appropriateness of the research questions and falsify the hypotheses in specific context. The reliance on both Sopron and Szekszárd strengthens the relevance of insights. However, the research design can by no means be treated comparative, the occasional comparison between the two regions was just used to add variation and be able to extract more diverse narratives. Also, the design was certainly not able to make reliable and consistent statements on the direction of influences – these almost always proved to be context-dependent (what seems to be not too surprising in light of the concept of informal talk).

Another limitation is related to concepts. The theories and operationalization used in this research (combined with the interview-based data collection) are particularly powerful in exploring a diversity of institutional patterns and in unfolding a colorful set of narratives. However this is in trade-off with the capacity to thoroughly describe one or to specific, pre-defined set of formal institution – further research might choose to rely on such strategies.

An additional important finding is that subsidized forms of cooperation are often not capable of generating and maintaining contexts geared towards enhancing cooperative performance after subsidies are decreased or stopped. This provides both a theoretically and empirically complex challenge for public policy researchers aiming to understand the most urgent conditions of designing appropriate business and development policies. For instance, the role

of procedural and economic incentives (and the ideal design) is to be studied with focusing on individual rationality and game theoretic equilibrium.

This might be a key takeaway for a researcher from the rational choice tradition. However, the limits of subsidized cooperation might equally interest researchers of industrial networks and sociologists relying on the embeddedness tradition. The local social and cultural ties contributing for the success or failure of small business policy provides an interesting ground to map how informal community interaction patterns persist or adapt under changing institutional incentives.

These insights might be relevant to provide basis for further research both in the context of Hungarian SMEs and wine industry. Different qualitative methodologies such as focus group based interactive discussions on the role of informality are for instance promising paths to more complement observations and more thoroughly understand the importance of interpersonal informality in the cooperation of geographically proximate firms.

Another basis for further research might be the finding that informal talk and agreement sometimes function as transaction cost reduction through being reputation management schemes. Further analysis and wider data collection might provide additional insights on the manifest dynamics of such institution, possibly with the toolkits of network science and econometrics.

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8. Appendix: Primary data and interview guide

8.1. The recruitment of interviewees

My research employed a recruitment strategy based on the “opt-in” logic. This strategy means that after the preparation of a (not necessarily complete) list of possible interviewees in each region, potential participants were contacted via email or telephone (through managers’ own or company addresses) and asked to state their desire to participate in an interview. This

means that, unlike with “opt-out” strategies, a lack of response is not enough to personally contact the interviewee. The choice between “opt-in” and “opt-out” strategies was more than unequivocal. As Milne and Rohm (2002) reminds, as “opt-out” does not require an explicit prior consent of participation, contacting might be interpreted as an interference into the confidential realm of business or managerial life. Thus one of the main advantages of the opt-out strategy mentioned by Junghans et al. (2004), higher participation rates are just not likely to be present.

8.2. The participating firms and managers

The sample includes five firms from the Szekszárd region (all from the wine municipality of Szekszárd) and five firms from the Sopron region (three from the wine municipality of Sopron-Városhörnyék and two from Sopron-Fertőmente). As explained above in section 4.1.4, I looked for diversity in firm size, firm age, managerial age and I only included firms producing in the quality (sometimes even high end) segments of the market. The following table includes all the relevant facts on the sample composition.

The Szekszárd Sample					
Fictitious Name	Ince	Aladár	Zénó	Nándor	Péter
Managerial age	55-60	30-40	55-60	30-40	60-65
Firm established in	Late 1990's	late 2000's	early 2000s	late 2000's	early 1990's
<i>Bottle of wines produced 2014 (thousand bottles)</i>	350	25	150	10-25	over 300
<i>Size of viticultured land used</i>	25-50 ha	0-5 ha	20-30 ha	0-5 ha	100+ ha
<i>Number of employees (inc. managers)</i>	25-45	1-3	5-10	1-3	n/a
Firm size (based on the above three categories, not the legal definition)	Medium	Micro	Small/Medium	Micro	Medium

Table 1 List of Szekszárd managers in the sample (source: informal responses of interviewees)

The Sopron Sample					
Name	Károly	Tamás	Dénes	Jónás	Csongor
Managerial age	40-45	30-40	55-60	65-70	25-30
Firm established in	mid 1990's	2000s	mid 1990's	early 1990's	2010's
<i>Bottle of wines produced 2014 (thousand bottles)</i>	100-150	35-50	8-10000 hectolitres	20-35	15-25
<i>Size of viticultural land used</i>	15-25 ha	10-20 ha	70-90 ha	5-10 ha	5-10 ha
<i>Number of employees (inc. managers)</i>	5-10	3-5	25-45	1-3	1-3
<i>Firm size (based on the above three categories, not the legal definition)</i>	Small/Medium	Small	Medium/Large	Micro	Micro

Table 2 List of Sopron managers in the sample (source: informal responses of interviewees)

8.3. The Interview guide development process

Based on my deductively developed research questions, a semi-structured interview guide was prepared before the fieldwork. This means that the core question in the interview guide relied on the approach of dividing and phrasing questions in a manner which might empower the researcher to extract information on the hypotheses in an in-depth interview setting.

The research tried to follow the construct offered by Hennink et al. (2011) and included introductory questions serving to create an environment of cooperation and mutual understanding of interests between the interviewer and the interviewee. Key or core questions, as noted above, tried to translate the essence of my research questions into questions suitable

for an interview situation. For this not only simple questions, but also the technique of vignettes was applied.

This research tool, as discussed by Wilks (2004) in the context of social work ethics and McVie, Jones and Noble (2008) in parental food choices and Finch (1987) generally, is a projective technique based on asking reflections and opinion on a priori prepared stories related to the research questions. According to Barter and Renold (1999), one of its main advantages is that it provides the opportunity for the interviewee to express his or her attitudes, perceptions, beliefs and narratives on a pre-defined topic, where the vignette story helps to detach the person of the interviewee from the situation in order to create an environment for explicitly talking about what a third party would. This is particularly helpful in contexts where the issues being analyzed are on the border of confidentiality or where personal reflections are not readily available (that is the story helps the interviewee to make his stance explicit even). Vignettes are particularly useful to elicit responses on taboo topics. Finally, the comparison of narratives might be easier through the usage of standardized vignettes. Precisely these advantages bring the disadvantages into the picture. As Finch (1987:113) reminds: *“asking about what a third party ‘ought’ to do in a given situation is not the same thing as asking respondents what they themselves think they ought to do”*. This is the tension of espoused theories and theories in use (Schön and Argyris, 1978). A list of my vignettes is included in Appendix B (as well as the interview guide).

The initial formulation of the interview guide was adjusted as the fieldwork progressed. In fact, a very moderate continuous reformulation of the content was applied: questions probing the relevance of specific institutions, concepts and practices mentioned during the interviews were perpetually included, and less relevant questions were ignored. Closing questions were not used in the interview. In the Szekszárd sample, my data collection for the thesis was complemented by a short set of question prepared for the Budapest-based Hétfa Research

Institute's study analyzing the role of professional services in the competitiveness of Hungarian agricultural industry (ordered by the Hungarian Competition Authority). In the Sopron area, the interview guide only contained questions relevant from the perspective of the thesis. The interview guide of the research and vignettes can be found in section 8.4.

8.4 Interview guide including vignettes

Ákos Zulik – Informal exchange, cooperation and wine subsidies – Interview topic guide 2015.03.17.

0. INTRODUCTION

- * Introduce the participant to the study again & respond to possible questions
- * Reiterate issues of anonymity in data transcription and use & conditions of confidentiality
- * Technical details: explain timing and the use of digital recorder and ask permission once more
- * Anything else?

1. FIRM HISTORY

To break the ice: The story of the enterprise

Foundation □

Most important milestones

2. GENERAL BUSINESS PERCEPTION

Who are perceived as the most important competitors? How are they competing?

Who are perceived as allies? – fellow winemakers? family? other entry? lawyer? accountant? munic?

How are they helping?

Distinguishing characteristics of the successful winemaker? (*Distinguishing characteristics of the losers.*)

VIGNETTE ONE

The manager of an Eger winery told a University of Pécs researcher that, the basis of successful development is – beyond good wine and marketing – is the cooperation of the local community. This, on the individual level means that the wine producer actively linked to the community has the access of other actors' knowledge. That is, great professional and local knowledge is accumulated. The producer so better knows where it is worth to buy machines, how to innovate, which grant opportunities are worth to apply for or who are the best accountants and grant writers locally.

VIGNETTE TWO

An expert of wine law highlighted that the brands on this market are not linked to the producer, but to wine regions. That is why it is particularly important to set common quality standards by locals and reach some agreement on the most important directions. If this is given, the activity of similar-sized quality producers is very similar in many aspects. The most important resources for development are to be gained, lobby power towards municipality and the state is necessary as well as the filtering of winemakers harming the regional brand. Wine producers from successfully cooperating wine municipalities will be successful individually as well. Luckily, one can see more and more good examples.

2. LOCAL CONVERSATION – TIES WITH FELLOW WINEMAKERS IN GENERAL

Are there other winemakers who you regularly speak with about business matters?

Are these exchanges focusing on business or on personal life?

What kind of business topics emerge?

What kind of events give space for such conversations?

Are there any contexts (balls, forums, expos, etc.) regularly putting all winemakers together and offering space for conversation?

Has it changed over time?

Are there local mailing list? What kind of topic emerge – what was the last intense conversation?

VIGNETTE THREE

A sociologist researching small businesses underlined that the events of the local community have role in accumulating knowledge. The community events that are capable to attract the elite of a town or a region are able to provide the opportunity to create ties between winemakers, entrepreneurs, politicians, teachers and doctors. This might lead to information and trust relationships. These are overly relevant from the perspective of business operation as personal ties determine the extent of clash with state institutions, the quality of available work force and other quite important factors.

3. LOCAL COOPERATION IN FORMAL INSTITUTIONS (Borút, Borklaszter, Pannon Klaszter)

How did the cooperation emerge?

Personal stories? With whom you had to talk?

What is the content? Does it really help? Is it important?

How intense is the interaction? What kind of context it ensures to informal exchange?

Which stakeholders are participating? (only wine producers or municipal actors, etc.)

How did locals organize to gain funds for establishing cooperation? – Stories of access

VIGNETTE FOUR

In a Corvinus University research, a well-known wine law expert was asked about the driving force of cluster development. The expert suggests that the cooperation focusing on real

operations is often secondary – the target is the absorption of cooperation subsidies. Thus deeper content affecting everyday activities are not really frequent.

4. RECENT DEVELOPMENT INVESTMENTS & 5. LARGEST DEVELOPMENT INVESTMENT IN THE PAST 8 YEARS

Description of the project(s)

Why did the winery engage with this project? rationale and opportunity cost(e.g. urgency, opportunity, ordering alternative projects)

How did you organize it? The story of getting it done – length, complexity

Who did help getting it done? Grant writers, fellow winemakers, municipality, lawyer, etc.

Do you have trustworthy employees helping you in making decisions?

Or just in making the paperwork, contacting stakeholders, etc.

Or you do everything yourself regarding these projects?

How important are EU agricultural funds in this investment?

Story of the first EU funds?

VIGNETTE FIVE

A Tokaj wine producer told Mandiner.bor that in order to absorb state and EU grants, it is inevitable to have a good networks. This is so because the municipalities and big wine producers have big influence on the distribution of funds. Thus small and medium producers are only able to be successful if gaining the benevolence of influential actors.