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# Excluded or Embraced: How do multinationals lobby in Eastern Europe?

Dr Dorottya Sallai<sup>\*†</sup>

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## Abstract

The paper investigates the lobbying strategies of multinational corporations' subsidiaries in Hungary. Previous research has shown that the unique lobbying style of post-socialist interest groups and firms is not compatible with the EU's multi-level lobbying system. However much less attention has been devoted to the question of how multinationals lobby in Eastern Europe. To understand how institutional complexity in a post-socialist context affects MNE strategy development, it is necessary to examine how the institutional context of the host country and the internal institutional pressures of the parent company affect subsidiaries' lobbying activities. The article makes a theoretical connection between the literatures on corporate lobbying, institutional duality and organizational capability in order to reveal how political capabilities are organized in an emerging host country context.

**Keywords:** lobbying, political strategies, institutional duality

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\* Affiliation, Address, e-mail: d.sallai@gre.ac.uk

† Corresponding author: Dorottya Sallai, Department of International Business and Economics, CBNA Research Centre, University of Greenwich Business School, Park Row, Greenwich, London SE10 9LS, e-mail: d.sallai@gre.ac.uk@greenwich.ac.uk, tel: +44 20 8331 9198

## Introduction

When firms engage in political activities, they develop strategies to address the “social, political, legal and cultural arrangements that constrain or facilitate” their activities (Doh *et al.*, 2012). Political strategies are seen as important nonmarket elements of firm strategy, comprising of actions to affect the public policy environment (Nell *et al.*, 2015).

A firm’s political strategy is determined by various environmental and organizational factors (Luo and Zhao, 2013). The political strategy literature has investigated how and why the interface between business and government differs in international host country contexts (Hillman and Keim, 1995, Hillman and Hitt, 1999) and what factors determine subsidiaries’ political strategies (Hillman and Wan, 2005). Most studies investigate the process of corporate political strategy formation (Boddeyn and Brewer, 1994) and firm and institutional variables that affect strategy design (Hillman and Wan, 2005), but do not tell us how subsidiaries enact political strategies. In other words, they investigate why firms engage in political activities and much less how they do it.

Furthermore most models take the corporation as the level of analysis (Hillman and Hitt, 1999) and only a few focus the attention on the subsidiary level (Blumentritt and Nigh, 2002, Hillman and Wan, 2005). The “critical role” of subsidiaries in designing and managing political strategies remains unexplored (Blumentritt and Nigh, 2002), which is especially intriguing in the emerging capitalist context, where firms face high levels of uncertainty (Peng, 2003) and complexity (Nell *et al.*, 2015). The current study addresses this gap in the literature by opening the black box of lobbying capability building at MNE subsidiaries, while aiming to contribute to our understanding of how institutional complexities affect strategy development. There is an absence of qualitative research seeking to embed the capabilities literature within the political strategy (Lawton *et al.*, 2012) and institutional field.

In all national economies multinational corporations face conflicting institutional pressures as they have to establish and maintain legitimacy both externally in their multiple host environments and internally towards the parent company (Kostova and Zaheer, 1999). On the one hand multinationals strive to adapt to their host country environment and become isomorphic with the local institutional context (DiMaggio and Powell, 2000), while on the other hand they try to leverage organizational capabilities on a worldwide scale and achieve global integration in their strategies (Kostova and Roth, 2002). According to Kostova and Roth, due to ‘institutional duality’ subsidiaries try to adopt their parent’s strategies, but their efforts may be shaped by their external institutional constraints as well (2002: 227). Earlier studies have investigated the effects of these pressures on the intensity of subsidiaries’ political strategies and found that conflicting institutional pressures lead MNEs to increase investment in political activism and the development of political tactics (Nell *et al.*, 2015). However some of the more intriguing and unresolved puzzles in strategy building are: (1) How firms develop lobbying capabilities within these contrasting institutional constraints and (2) How are the newly developed strategies different from host country firm practices. In response to these questions I explore how MNE subsidiaries develop and organise their political capabilities in the context of post-socialist capitalism. I draw on the capabilities and corporate political activity literature to design a conceptual model to understand how western MNE subsidiaries organise their political capabilities and design their host country lobbying strategy when faced with the pressures of institutional duality. The objective of this paper is to better understand how MNEs relate to institutional complexity in their lobbying strategy development and how the pressures stemming from the institutional duality phenomenon affect their nonmarket competitiveness in the host country environment.

A number of studies claim that political activities of subsidiaries are affected both by the host country context (Hillman and Wan, 2005, Hillman *et al.*, 2004, Lawton *et al.*, 2012)

and the coordination mechanisms within MNE subsidiaries (Blumentritt and Nigh, 2002). We also know that industry competition and the country's political institutional structure affect firms' policymaking influence (Macher and Mayo, 2015) and that MNE subsidiaries encounter pressure to conform to host country expectations, at least in the corruption domain (Spencer and Gomez, 2011). While these studies have enhanced our knowledge, I claim that we need to revisit institutional duality and subsidiaries' political strategies for two reasons. First, studies that investigate political strategies of western multinationals in the Asian context (Luo and Zhao, 2013) suggest that subsidiaries engage in the host country's political strategies, but do not explore whether these subsidiaries implement any of their home country strategies in the host context and how. Second, we do not know how subsidiary strategies differ from those of local firms, which do not experience the pressures of institutional duality. Earlier studies have specifically called for the investigation of how subsidiaries react to institutional duality (Kostova *et al.*, 2008) and 'how subsidiaries manage the pressures of conforming both to the strategic requirements placed on them by their MNCs and the institutional pressures placed on them by their host countries' (Blumentritt and Nigh, 2002: 71). Addressing these calls I argue that to understand the interaction of corporate and host country forces on the development of subsidiary's political activities we need to investigate mechanisms on the firm level. Beyond the investigation of institutional level forces we need to extend our research to the capability building mechanisms that firms initiate when dealing with complex institutional pressures.

Building on the theory of 'institutional duality' (Kostova and Roth, 2002) and using the resource dependence (Pfeffer and Salancik, 2003) and political capabilities models (Lawton and Rajwani, 2011, Oliver and Holzinger, 2008, Teece *et al.*, 1997), I find that western MNE subsidiaries design a localised lobbying strategy in emerging capitalist systems. Instead of simply transposing their MNE strategies, and adjusting them to the degree of pluralism/corporatism of the host country (Hillman and Wan, 2005) or adapting to the host

country's strategies (Luo and Zhao, 2013), subsidiaries use the political capabilities of the parent company and the host country context as resources, when building their unique host country lobbying portfolio. Local subsidiary managers adapt the global strategies to the host country's institutional constraints and extend these with local relational strategies. In contrast to the literature the level of analysis is the firm, which has been relatively neglected previously in institutional scholarship (Greenwood *et al.*, 2014). The study shows empirically how subsidiaries 'turn' the resources stemming from institutional duality into political capabilities, as a way to gain competitive advantage in the host country's nonmarket environment. They develop a localised strategy by turning home- and host country nonmarket resources into an integrated mix of political capabilities. In this way subsidiaries make use of both worlds. Consequently, I argue that institutional duality should not be viewed as an exogenous and constraining factor to business strategy (Nell *et al.*, 2015, Kostova and Roth, 2002, Hillman and Wan, 2005). Instead, it should be treated as an endogenous aspect of the institutional framework within the global political economy, which may equip firms with diverse political capabilities and might be used to gain competitive advantage in foreign markets.

Earlier studies have shown that the preservation of comparative institutional advantage is a critical consideration for MNEs when entering and adapting to foreign markets (Ahmadjian, 2016). According to comparative institutional analysis, when MNEs move abroad institutional complexity will not only impact their legitimacy in the host country environment, but will raise questions about how to manage their strategy and keep their comparative advantage within the new setting (Ahmadjian, 2016). Extending this literature I show that institutional duality provides a source of competitive advantage for MNE subsidiaries when compared with local host country firms. Furthermore I argue that in the emerging market context a single focus on institutional duality from a legitimacy perspective (Kostova and Zaheer, 1999) is less adequate than a focus on strategy development.

Rather than aiming to develop a definitive framework to explain subsidiary's capability development this article attempts to illustrate some ways in which firms address institutional complexity when developing political activities in emerging host country contexts. This approach contributes to earlier emerging economy business research, analysing the management of resources and capabilities in relation to firm's market entry strategies under institutional idiosyncrasies (Meyer *et al.*, 2009).

The article is structured as follows. First I explore MNEs' political strategies and the theoretical framework, then I describe the methods. In the following sections I introduce the empirical case, and investigate the political capabilities and strategies of MNE subsidiaries and large domestic firms in Hungary. In the final section I conclude.

## Corporate political activity in different institutional contexts

Companies engage in political strategies in order to access policy-makers and inform them about their strategies, to influence decision-makers' opinions, or to build reputation (Nell *et al.*, 2015: 304). In developed market economies, corporate political activity is "largely about legal, firm-level engagement with institutionalised political actors and structures" (Lawton *et al.*, 2012: 87). Hence lobbying in the 'western context' is an "essential, legitimate and distinguishable activity, which supplements business activity" (Hadjikhani and Ghauri 2006: 391). In other words political strategy is mostly managed through arm's length, formalised and increasingly professionalised practices, especially in the UK (Thomson and John, 2007, Hillman and Keim, 1995), the US and the EU (Beyers *et al.*, 2008, Coen, 1999, Mahoney, 2008). In contrast, in central and eastern European (CEE) countries public affairs are not understood as ways of interest representation and lobbying, which create a link between business, society and the government (McGrath *et al.*, 2010), but are rather viewed as a form of corruption (Millar and Koppl, 2014). While in developed capitalist systems public affairs is a "programmatically and issue-driven" activity, in which the "rules of the game" are transparent and clear, in Eastern capitalist systems, the public affairs culture is missing (Harsanyi and Schmidt, 2012) and the topic of lobbying remains a taboo (Sallai, 2013).

Consequently in many CEE countries public affairs is not seen as a valuable corporate function and therefore it is often outsourced (Millar and Koppl, 2014) or managed by the CEOs themselves (Sallai, 2013). Some even argue that in post-socialist countries, both local and global firms find it difficult to legitimise public affairs (Millar and Koppl, 2014) and hence to develop a professional public affairs culture (Harsanyi and Schmidt, 2012).

The first 20 years of transition has created an institutional environment in eastern Europe, in which political and economic relationships became strongly interlinked, and status

and personal ties often supersede the authority of independent formal institutions (Grzymala-Busse and Luong, 2002). The distinct institutionalisation process of post-socialist capitalism created a framework that differs greatly from western capitalist systems, because in central and eastern Europe informal institutions (Meyer and Peng, 2006) and interpersonal networks (Peng, 2003) have a much more crucial role than in advanced capitalist societies. Although informal institutions have a role in western societies as well, in post-socialist economies, where formal institutional structures are weak (Grzymala-Busse, 2004, Grzymala-Busse, 2012, Wallace and Latcheva, 2006) they shape many areas of social organization, including corporate ownership structures, the distribution of resources, the structure of influence as well as the nature of governance and the state (Wedel, 2003: 428).

The weak nature of formal institutions encourages firms to develop political activities based on business networks (Peng and Heath, 1996) and informal relationships (Peng, 2003, Luo and Zhao, 2013). As these network-based strategies are less transferable than other capabilities, MNEs often hire local managers to manage their political activities (Luo and Zhao, 2013) or engage in buffering strategies if political connections become disadvantageous due to the change in political leadership (Boddeyn and Dieleman, 2012). In this institutional context network-based political strategies are more important than transactional ones, because only relationship building helps businesses to obtain external resources and institutional support (Peng 2003, Luo and Zhao 2013). Indeed Luo and Zhao defined relational political strategy as a strategy to build “long term relationships with host country government agencies and officials to influence government policy and/or acquire government controlled resources” (Luo and Zhao, 2013: 517). Some even argue that in these economies relationships at different levels of social organization are the “lifeblood of economic development and business conduct” (Luo and Zhao, 2013: 516). The importance of informal networks in state-business relations have been widely recognised, not only in China (Boisot and Child, 1996) or Russia (Puffer and

McCarthy, 2007), but also in some EU-member eastern European countries, like Poland (McMenamin and Schoenman, 2007, Schoenman, 2005) and Hungary (Sallai, 2013, Stark, 1996, Stark and Vedres, 2012, Danis *et al.*, 2009).

Yet, a puzzling question remains: How do MNE subsidiaries build their lobbying capabilities within the conflicting pressures of external and internal institutional demands? It is easy to see why MNEs from developed market economies face conflicting pressures in emerging or transition economies: on the one hand they want to be in line with their internal demands and would try to implement arm's length, formalised and professional political strategies, while on the other hand they face the external pressures towards network-based exchange mechanisms (Peng 2003, Luo and Zhao 2013). Western MNE subsidiaries hence face contrasting institutional pressures as the nonmarket environment of their home and host country contexts are markedly different. Indeed the literature claims that firms confronted with conflicting isomorphic pressures tend to either choose the more 'legitimacy-enhancing practice and adopt it' (Nell *et al.*, 2015: 304) or 'pretend' to follow certain institutionalised rules, while actually conducting business in different ways. This latter is often referred to as 'ceremonial adoption' (Kostova *et al.*, 2008). Yet some aspects of the institution puzzle remain unexplored, for instance how businesses engage with conflicting institutions especially in the headquarter-subsubsidiary context (Meyer and Peng, 2016) and how the interaction of corporate and host-country forces impact subsidiaries' political activities (Blumentritt and Nigh, 2002).

MNEs' experiences in emerging markets, including central and eastern Europe have highlighted the importance of institutions, not only exogenously in terms of how they produce specific constraints for firms, but also how they lead to different firm behaviours across institutional settings (Jackson and Deeg, 2008). By looking at western MNE subsidiaries' political strategies in the post-socialist institutional context, this article explores how institutional duality affects political strategy building through the development of lobbying

capabilities. External institutional pressures originate mostly from non-market actors in the subsidiary's surroundings, such as the host country government or regional governments as well as non-governmental interest groups (Nell *et al.*, 2015). In emerging economies the government's impact on economic life is often considered more substantial (Boisot and Child, 1996, Borragán, 2006) and institutions in general 'far more pertinent' (Meyer and Peng, 2016: 4) than in developed economies. The state's fundamental control on national resources in economic and social transitions makes state-business relations essential to firm growth (Luo and Zhao, 2013). This importance is magnified for foreign firms, since local firms might enjoy domestic privileges (Kostova and Zaheer, 1999).

Hence the question arises how differently or similarly do domestic firms manage their political strategies compared to MNE subsidiaries? Previous research has shown that MNE subsidiaries adapt to the local "networking game", by appointing local CEOs or government affairs professional who possess the relevant political networks (Meyer and Peng, 2006, Peng, 2003b, Peng and Heath, 1996). However these studies have not explained three key issues. First, how political adaptation is managed beyond market entry. Most studies in this field limit the scope investigation on MNEs access to foreign markets (Meyer *et al.*, 2009, Peng, 2003, Peng and Heath, 1996), but does not inform us how subsidiaries develop and manage their strategies once they are not new anymore in the emerging market. Indeed, by 2015 many MNEs have 'mature subsidiaries in a range of emerging economies, and their key concern is operational growth' (Meyer and Peng, 2016: 8). Thus the question arises how MNE subsidiaries can use political strategies to achieve growth or gain competitive advantages in emerging markets?

The second issue to explore is what kind of resources subsidiaries use for building their lobbying capabilities. Previous literature have explored the political activities of MNE subsidiaries in different ways. Quantitative studies investigated the integration of subsidiaries'

political activities in the host-country context (Blumentritt and Nigh, 2002) and explored what type of subsidiary, host country and parent factors may be linked to the legitimacy of political strategies (Hillman and Wan, 2005), while qualitative studies informed us about the ‘antecedents’ of how political capabilities are organised within changing transnational policy context (Doh *et al.*, 2012, Lawton and Rajwani, 2011, Lawton *et al.*, 2013). Despite the value of these earlier works, we still know little about the firm-level process of capability building for political activities in the emerging market context. Hence, the third issue to investigate is how the localised host country strategies of subsidiaries differ from those of domestic firms - if at all. The answer to these questions would not only further our theoretical knowledge, but could provide useful insights about strategy building for managers engaging in political activities in emerging markets.

### Lobbying capabilities and comparative advantage

Lobbying in developed market economies refers to political activities through which firms provide legislators with technical information about legislative proposals, and ensure that decision-makers are well informed about how legislation may affect industries and other stakeholders (Harris *et al.*, 1999). Multinationals’ political strategies have often been explored through resource dependence theory (Pfeffer and Salancik, 1978), which posits that organizations are not self-sufficient, they need to acquire resources from their environments (Aldrich and Pfeffer, 1976). Exploring EU-level lobbying, Bouwen argued that when interest organizations want to get access to decision-making, they provide industry information or expertise to policy-making institutions as a resource in exchange for access (Bouwen, 2002). He claimed that at the supranational level, institutions and businesses become interdependent, because they need resources from each other (Bouwen 2002: 368). Firms require access to policy-makers at EU institutions, while institutions demand information from businesses about

the impacts of prospective legislation. Bouwen coined the different types of information that private actors provide to institutions 'access goods' (2002). In the EU headquarters, legislative proposals originate from the European Commission. In this context information about the national business environment, the impacts of a legislative proposal or special industry expertise, all provide valuable knowledge and the sense of legitimacy for decision-makers (Bouwen, 2004). Hence, according to the theory of 'access goods', if private actors are able to provide the information that institutions demand, they are granted access to policy-making.

In contrast, in the post-socialist context nonmarket activities are 'most commonly associated' with bribery (Akbar and Kisilowski, 2015). In emerging economies, the access points to influence policy may be less clear. Although political connections can have a pervasive impact even in long established legal systems, such impact does not necessarily lead to the exercise of improper influence (Harsanyi and Schmidt, 2012: 5). In countries with a weaker legal system, political connections can matter greatly (Harsanyi and Schmidt, 2012). It is therefore no surprise that in the lobbying exchange, formal and informal networks provide access to decision-making, while instead of information, money and/or social favours are the resources that corporations 'pay' with to get access to policy-making (Sallai, 2013). Both access (formal relations through memberships and informal relationships through interpersonal networks) and currency (cash or social favours) are inevitable for lobbying success. Furthermore, as generally CEOs have the highest-level web of personal networks, lobbying is positioned exclusively at the top-level of the organizational hierarchy (Sallai, 2013).

The above-discussed institutional differences have substantial impact on the lobbying exchange. By focusing on how firms develop their lobbying capabilities within the constraints of the post-socialist lobbying exchange and institutional duality, it seems logical to view nonmarket strategies not only within an institutional level perspective, but rather as a firm level political capability building process. In this paper I will apply the resource-based theory to the

analysis of MNE subsidiaries' lobbying activities. According to the resource-based view (RBV), inimitable or not easily substitutable resources that are owned or controlled by firms may provide competitive advantage on the market (Peteraf, 1993) and also in the nonmarket environment (Bandelj and Purg, 2006, Lomnitz and Sheinbaum, 2004, Sik and Wellman, 1997, Windolf, 2002).

Resources alone however do not necessarily lead to efficient political engagement. In order to engage in political activities, firms need to make strategic decisions concerning their corporate political strategy (Hillman and Hitt 1999; Taminiou and Wilts 2006) and turn their available resources into lobbying capabilities (Lawton and Rajwani 2011; Lawton, Rajwani *et al.*, 2013). In contrast to EU studies, management scholars make a direct link between financial resources and firm level strategy development, by identifying different types of corporate political resources (Dahan 2005) and investigating how resources may be turned into capabilities by managerial actions. By definition, capabilities refer to a "firm's capacity to deploy resources" (Amit and Schoemaker 1993: 35) as well as its "ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (Teece, Pisano *et al.* 1997: 516). Hence, it is not "sufficient for firms to simply possess resources", they must be able to turn them into firm-specific dynamic capabilities in order to "effectively develop strategies to manage the political environment" (Oliver and Holzinger 2008: 15, 16). In essence, firm capabilities can be understood in terms of organizational structures and managerial processes (Teece, Pisano *et al.*, 1997: 517) through which managers "design and construct organizational systems to comprise the productivity of whatever resources the firm acquires" (Makadok 2001: 387). In contrast to the resource-based view, the capabilities theory is a more dynamic framework that is able to capture change in the environment (Helfat, Finkelstein *et al.* 2009) and therefore may be more suitable for explaining MNEs strategy building in the high-velocity (Danis *et al.*, 2009) emerging economy context.

To understand the patterns of multinational subsidiaries' interactions within the host country's nonmarket environment, in this article I will investigate how subsidiaries turn resources from their external and internal institutional context into lobbying capabilities. Some scholars argue that the larger the regulatory distance between the home and the host country, the more institutional pressures subsidiaries are facing and hence the more inclined they get to develop relational or network-based political strategies to offset their local disadvantages (Luo and Zhao, 2013). In this respect networks have been identified as inimitable and unique resources that firms may use to access crucial resources from their institutional environment (Gulati *et al.*,2000).

Network ties or more practically the boundary-spanning links between firms and government officials are crucial in nonmarket strategy (Dah *et al.*,2012:31). Networks can enable firms to get access to the policy-making process (Bandelj and Purg, 2006, Lomnitz and Sheinbaum, 2004, Sik and Wellman, 1997, Windolf, 2002), acquire a competitive advantage (Dah *et al.*,2012) or increase their knowledge about public policy that otherwise would not be accessible. Hence, relationships or social capital may provide access to information, policy-making or even capital (Gulati *et al.*,2000).

Earlier studies have shown that the resources and capabilities deriving from MNEs home country practices give advantages to subsidiaries when entering foreign markets (Ahmadjian, 2016). Furthermore, in their global expansion, MNEs maintain their organisational systems derived from their home institutions in order to gain competitive advantage (Luo, 2002). Consequently one would expect that MNE subsidiaries gain competitive advantage in the network-based host country context by implementing the professional, arm's length political strategies of their headquarters.

Yet, other studies claim that subsidiaries improve their host country performance by formulating a relational political strategy to address the unique requirements of the emerging

market environment (Luo and Zhao, 2013). Based on this claim one would expect that subsidiaries adapt to the network-based system of emerging markets and distance themselves from the arm's-length political strategies used by their headquarters.

The current study contributes to this debate by claiming that the different institutional pressures stemming from institutional duality will not result neither in the sole implementation of home country practices, nor the complete adaptation to the host country strategies. Instead this article conceptualises the strategy building of MNE subsidiaries and claims that institutional duality has a decisive impact on how firms develop political strategies. I make three distinct theoretical contributions. First, I transfer the analysis of nonmarket strategies from the institutional to the firm level, by opening the black box of how subsidiaries develop host country strategies. Second, by focusing on the process of how subsidiaries turn external and internal resources into political capabilities, I argue that institutional duality should be viewed as an endogenous aspect of the institutional framework, which equips firms with political capabilities rather than an exogenous institutional constraint (Nell *et al.*, 2014, Tempel *et al.*, 2006). Third, the study extends the scope of analysis of nonmarket strategies beyond multinational subsidiaries, on which previous literature has been concentrated (Blumentritt and Nigh, 2002, Tempel *et al.*, 2006) to include local firms.

## Methods

The study is based on the case study of Hungary. Hungary has been considered one of the most consolidated democracies among post-socialist countries until recently. Since the 2010 elections, however - when Viktor Orbán's conservative party, Fidesz acquired a two-thirds majority in the parliament - Hungary's "democracy score has steadily declined", bringing it closer to some of the less developed semi-consolidated democracies, like Romania and Bulgaria (Walker and Habdank-Kończakowska, 2012: 6).

This sudden change in political governance makes Hungary a critical case to explore. Since the political turn in 1989, Hungary was one of the most open and fast growing states in the region. It was a front-runner in attracting FDI in the 1990s both through privatizations and Greenfield investments by foreign MNEs. However since 2010, the country has become less attractive to foreign businesses, as the Orbán government has imposed high taxes in MNE dominated sectors (Sass and Kalotay, 2012: 1) and engaged in a political rhetoric against foreign capital. In this vividly changing institutional framework MNE subsidiaries have to operate in an extremely uncertain environment, where rules might change from one day to the other (Sallai and Schnyder, 2015). The nature of the critical case makes the investigation of the impact of the institutional environment easier, because patterns become more visible than in less turbulent times (Flyvbjerg, 2006), as the arbitrariness of the new regime amplified the system characteristics of post-socialism and hence contextual relationships that had also been there previously, became apparent and observable. This, from a methodological perspective, is an important difference, which makes Hungary one of the most suitable states for the investigation of the research question at hand.

The UK was included in the research as a 'shadow case'. The rationale behind the inclusion of the UK was twofold. First, the UK's interest intermediation system is mostly characterised by professionalism and arm's length practices. In London, firms do not rely on their personal contacts solely any more, since "the quality of their argument is fundamental" (Thomson and John 2007: 5). Lobbying has professionalised over the last decades and became a formalised activity with clear rules that the industry acknowledges in ethical code of conduct. Due to this high level of professionalism, empirical evidence, compiled in the UK, was used on the one hand for theory development for strategy design and on the other hand as a shadow case for comparison to the post-socialist case study. The inclusion of UK firms does not imply that their practices are 'benchmarks' for lobbying, but rather that they engage in practices that

the literature interprets as ‘arm’s length’ or professionalised. The shadow case is only used to illustrate the differences between ‘western’ and ‘eastern’ practices to make institutional duality measurable.

The empirical study comprised 51 semi-structured interviews out of which 42 were conducted with business people and a further 9 with experts such as political advisors, or representatives of NGOs and associations. Interviews were conducted in London, Brussels and Budapest in 2009-2015. The research was carried out based on purposive sampling through predetermined selection criteria as it is mostly done in qualitative research (Miles and Huberman, 1984, Miles and Huberman, 1994). In London and Brussels the majority of participants were senior or managerial level public affairs professionals at agencies and large corporations, whereas in eastern Europe the sample comprised of CEOs and PA directors at MNE subsidiaries and top managers at domestic firms. More specifically, the interviews included 12 CEOs and PA directors at Hungarian subsidiaries of multinational companies (Budapest), 14 top managers (CEOs, vice-CEOs, board members, heads of unit) of large Hungarian firms (Budapest), 13 PA professionals at agencies active in London and Eastern Europe, two in-house PA professionals in London, two Hungarian political advisors (one left-wing and one right-wing), one Hungarian businessman, and seven other key players, such as representatives of non-governmental organizations and associations. In this study only MNEs from western countries were included, the interviewed subsidiaries originated from France, the US, Germany and the Netherlands.

## Political capability design and strategy development

In this section we will explore how MNE subsidiaries design their lobbying capabilities in the Hungarian institutional context and how these capabilities differ from those of local firms’.

In order to meet the requirements of the local institutional context, multinational subsidiaries find different ways to adapt their lobbying structure and strategies. Besides employing local CEOs or a Public Affairs director - in case the CEO is an expatriate - they are prepared to invest extensively into building and maintaining networks with local decision-makers and different political stakeholders. The following quotation shows how open subsidiaries are to the requirements of the local context, and how far they would go to meet the access criteria of domestic institutions.

*“The CEO of a large multinational subsidiary in Hungary is an important person. Maybe politically it is necessary to bring here the CEO of the headquarters, then that’s what they will do. Multinationals are pragmatic. No problem. They will bring here whoever is necessary, the regional or even the world leader, if it is worth it. In my case as well...If I can arrange something, then I do, but when I feel that somebody needs a more important person, then I invite the regional CEO or, if they [public officials] want the world leader of the company, then we bring him here. Whatever is necessary...”*  
(CEO, multinational in Hungary 5<sup>1</sup>)

As the quote suggests, multinationals adapt to the host country environment by accepting the local rules of networking. They understand that networks provide access to decision-making, and adapt to this requirement by linking international top managers of the mother company or the subsidiary with the relevant, local decision-makers. However, multinationals not only adapt to the networking requirements, but extend them with their additional capabilities, including professional lobbying know-how, financial and human resources and economic weight. Hence, besides engaging in interpersonal relationship-based lobbying with decision-makers, CEOs of subsidiaries are also supported by professional public affairs personnel and techniques. As one of the lobbyists at a subsidiary explained: “... big bosses do not go into deep details, working the issues out is my [the PA director’s] job” (Director, multinational in Hungary 8<sup>2</sup>). The same responded added:

*“They [multinationals] have professionals for this activity [lobbying], who help to analyse the given issue. There is huge experience and background internally at these*

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1 CEO, Multinational subsidiary in Hungary 5, interviewed by author in Budapest, 24.01.2012

2 Director, Multinational subsidiary in Hungary 8, interviewed by author in Budapest, 16.04.2012

*companies. ...At the biggest ones they have a professional for this [public affairs] and international support. They collect international benchmarks; they hire consultants to write policy papers, [and] even legislative proposals.” (Director, multinational in Hungary 8).*

The quote indicates that subsidiaries implement all the necessary professional support functions that political analysis and lobbying requires. They make use of their international networks, public affairs expertise as well as human and financial resources when it comes to political engagement. However at the same time they also adapt their internal resources to the local institutional requirements. Based on the analysis of the interviews it becomes clear that multinationals tend to set up in-house political capabilities for public affairs at their local subsidiaries. Interestingly however – in contrast to UK firms, where many in-house teams were supported by external agencies - among the interviewed subsidiaries only one had a contracted relationship with an external PA agency in Hungary, all the others had only the internal unit for public affairs. The same was found in other Eastern European countries as well. In Slovakia for instance, the country manager of a multinational PA/PR agency explained that multinationals – that are managed by local managers – have a similar approach towards professional lobbying as domestic firms.

*“Even multinationals that are run by Slovak managers think it is not efficient to run lobbying externally – they have to have somebody internally. One person is enough and they have to manage lobbying internally [arrange lobbying capabilities within the company instead of outsourcing]”<sup>3</sup>.*

As the quote shows, even though multinationals acknowledge the importance of setting up a professional public affairs unit and implement western-style lobbying structures, they adapt to the institutional environment by keeping these in-house units small and manage lobbying capabilities exclusively from inside the organizational structure.

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<sup>3</sup> Country manager of international public affairs agency in Slovakia, telephone interview by author, 30.10.2009

In contrast, domestic firms in Hungary do not invest in professional public affairs capabilities. Therefore, in those relatively rare, occasional instances when political decision-making opens up for the professional input of industry, only MNE subsidiaries are able to provide insightful, analysis-based input. Often - when an occasional social dialogue is carried out by the government - industrial feedback is required on a given legislative proposal on an extremely short deadline, for instance overnight or over the weekend. As the following quote illustrates, in these cases only subsidiaries stand a chance to respond:

*When the government – reluctantly – sends documents for review or debate, it tries to prevent opinions by sending the document the previous night, requiring feedback by the following morning. They send 30-50 pages of a legislative proposal the day before the deadline, and they think that formally they met the requirements of corporatist negotiations. Companies are normally not prepared to submit any feedback to these. But multinationals are prepared to give feedback even in 24 hours” (Director of stakeholder relations<sup>4</sup>).*

Multinationals are not only seen by most business leaders as less corrupt and more professional in their political activities than their domestic counterparts, but their local, network-based strategies are considered highly sophisticated, even in comparison to host country practices. As one of the informants, a professor of public affairs explained, subsidiaries engage in network-based strategies in a more systematic way than domestic firms. They build up a layer of young, local managerial group that engages with public officials at every level of political decision-making or as the interviewee claimed, they are “there everywhere<sup>5</sup>”. The same respondent added:

*“They choose the personal form of making contacts; they do not offer money for government administrators, but promise success for the government. When the government desperately wants success - because it is not doing fine, or even if it does - they go to the Ministries and the Prime Minister’s Office. There they say that ‘there are so many good things we could do together, give us some money, if you get in we get in...’ They are so very much present in the different layers of public administration that it is shocking.*

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4 Director of stakeholder relations at multinational subsidiary in Hungary 1, interviewed by author in Budapest, 06.09. 2011

5 Hungarian professor of public affairs, interviewed by author in Budapest, 24.01. 2012

*Now, this is not forbidden, I could say a little bit cynically that these actions are almost PPP [private-public-partnership] issues that everybody likes. There is nothing illegal in these co-operations. They found the method of building contacts very well, which is not disprovable, in some respect it is even positive, but it nicely fits into this Eastern picture”.*

As the above quote shows, multinationals acquire access to decision-making similarly to domestic firms through interpersonal connections. However, while domestic firms were found to concentrate on top-level engagement exclusively, through their CEO’s interpersonal contacts (Sallai, 2013), MNE subsidiaries focus their efforts on targeting the whole vertical spectrum of legislative policy-making. This type of approach suggests a conscious strategy-building effort.

## Discussion

Findings suggest that subsidiaries do not limit their networks and consequently their access to the top of the political elite, but rather extend their web of relations over a wider circle of decision-makers. For them, it is important to know who is dealing with policy at the administrative level at the different ministries, because they have the expertise and resources to prepare analysis-based lobbying documents that can be channelled into the legislative process early on. This type of engagement strategy is frequent in London, however in the Hungarian institutional environment it is rare. MNE subsidiaries support administrators with expert information substantially more than their domestic counterparts. As a result, domestic companies ‘slip out’ of the policy-making process when occasionally, a legislative proposal goes through the whole legislative process and hence subsidiaries gain a competitive advantage. Below table 1 indicates that domestic and multinational firms use different types of resources in their local political activities.

*Table 1: Different ‘resources’ of lobbying used by multinationals and domestic firms*

| <b>Resources of lobbying</b>           | <b>Subsidiaries of multinationals</b>   | <b>Domestic firms</b>   |
|--|---|---|
| <b>Networking reach</b>                | Systematically/strategically through the whole vertical spectrum of the public sector                           | Through the interpersonal network of top-level managers (friends, family, acquaintances etc.) |
| <b>Networking focus</b>                | All levels of policy-making hierarchy   | Top-levels of policy-making hierarchy   |
| <b>Political strategy</b>              | Long-term and clearly defined   | Short-term and not defined  |
| <b>Responsible person for lobbying</b> | CEO, PA manager (and maybe team)  | CEO and vice-CEO  |
| <b>Tools of lobbying</b>               | Informal meetings, associational representation, political analysis, legislative monitoring, coalition building | Informal meetings and associational representation  |

As Table 1 indicates, subsidiaries are more strategically-driven in their lobbying activities than their host country counterparts and use more arm’s length practices as well. MNEs build networks consciously, systematically targeting the whole vertical spectrum of relevant public officials, based on a clearly defined political strategy, whereas domestic firms

make use of their top leaders interpersonal relationships, based on ad hoc, actual interests and long-term trust-based exchanges rather than a systematic policy-driven approach. In contrast to subsidiaries, domestic firms limit their lobbying scope to the top layers of political decision-makers and do not engage with lower level officials. As it was noted earlier, CEOs of subsidiaries are supported by a person or a team of public affairs professionals, so their lobbying expertise is extended beyond the strategic levels. Domestic managers however, do not have the same type of support and consequently their lobbying tools are limited to informal meetings and associational representation. Besides, the additional lobbying capabilities make subsidiaries able to engage in legislative monitoring, policy analysis and coalition building as well.

Based on the findings of this study, capabilities of subsidiaries and domestic firms seem to differ, even though they both engage in lobbying in the same institutional context. Below, table 2 summarizes the differences in lobbying capabilities and sets the scene for the investigation of firms' lobbying strategies.

*Table 2: Capabilities of domestic and multinational firms in Hungary*

| <b>Capability</b>  | <b>Subsidiaries of multinationals</b> | <b>Domestic firms</b> |
|--|---------------------------------------|-----------------------|
| <b>Lobbying know-how and expertise in public affairs</b> | Available                             | Not available         |
| <b>Personnel / team for lobbying besides the CEO</b>     | Available                             | Not available         |
| <b>Corporate political strategy</b>                      | Available                             | Not available         |
| <b>Networks</b>  | Available                             | Available             |
| <b>Outsourcing / Use of agencies</b>                     | Available (occasionally)              | Not available         |

Table 2 illustrates that while multinationals make use and integrate networks as the locally crucial ingredient into their lobbying mix, they extend their capabilities with those that they ‘transfer’ from their headquarters, such as their professional lobbying know-how, human resources and the written and strategically designed corporate political strategy. They also develop formalised public affairs capabilities inside the organizational structure with dedicated human resources and a separate budget.

Earlier research has shown that established ‘western’ business practices may not have the same effect if applied by subsidiaries in the post-socialist context (Meyer and Peng, 2006). Indeed, the sole implementation of professional, arm’s length lobbying methods would not

Excluded or Embraced: How do multinationals lobby in Eastern Europe?

make MNE subsidiaries able to influence decision-making in the Hungarian context and may even disadvantage them compared to host country firms. Hence, besides the transferred, 'western-style' political capabilities, skills and expertise, their conscious investment in networking and relational strategies has crucial importance.

The lobbying strategy that MNE subsidiaries develop in Hungary is a mixture of ingredients from lobbying practices used in developed and emerging capitalist contexts. The new localised approach is a 'combined' strategy, containing a mix of both arm's length and relational lobbying practices. Through this efficient and adapted political strategy, subsidiaries get full access to local decision-making and can successfully participate in the interest representation of the host country, but at the same time remain in line with their MNE parent practices as well. The following chart (chart 1) shows how institutional duality contributes to MNEs host country strategy design through the theoretical framework of resource-based view:

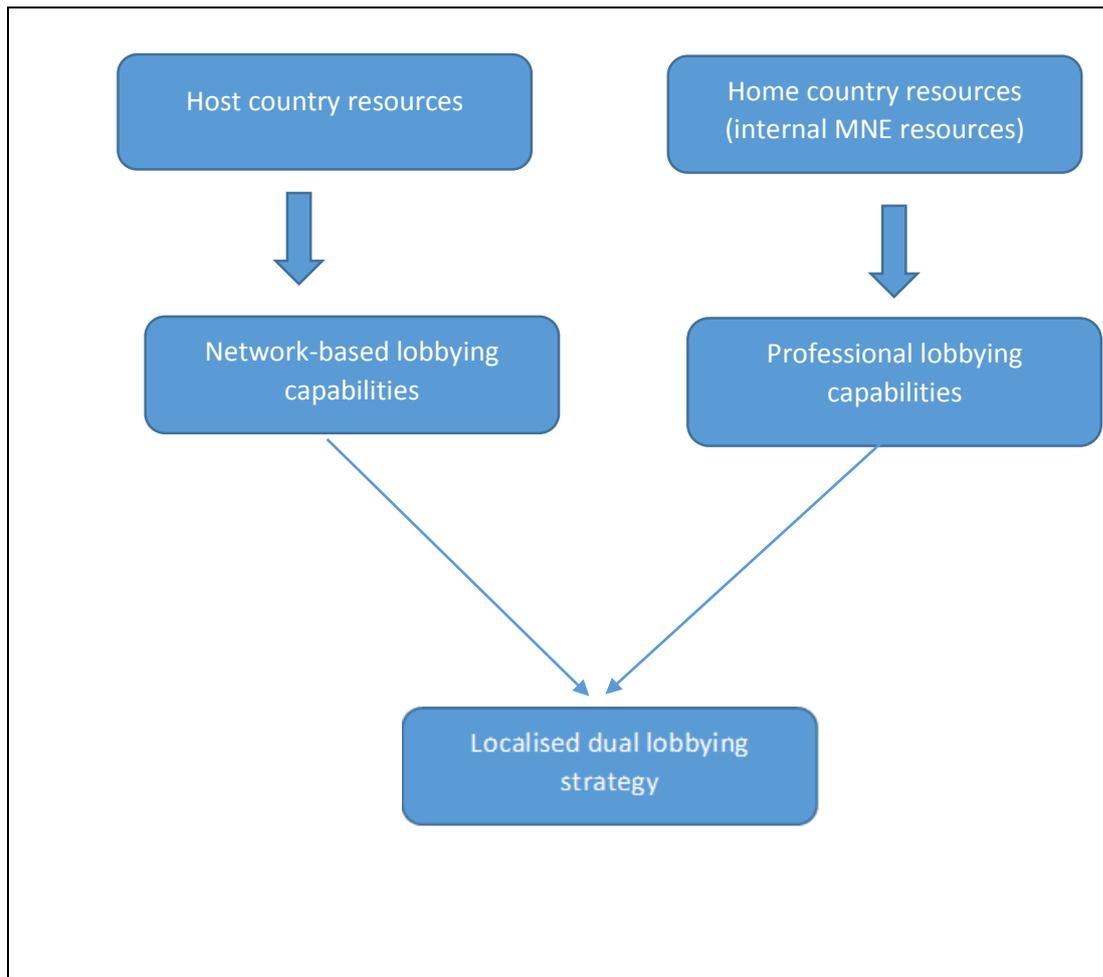


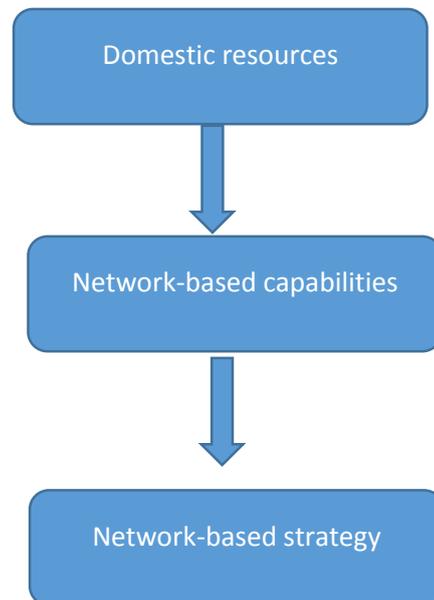
Chart 1: The contribution of institutional duality to host country strategy development

In the emerging capitalist context the institutional pressures of the MNE and the host country are often contradictory. Indeed, while the ‘western’ MNE would generally require transparent, formalised and predictable public affairs practices, in the host country environment access to policy-making is provided through informal, top-level and often non-transparent lobbying practices. Previous research has found that the tension between the MNE’s internal (home country context) and external (host country context) legitimacy requirements is likely to create difficulties for subsidiaries (Kostova and Zaheer, 1999). Furthermore, as these difficulties do not affect purely domestic firms - as they are not experiencing the conflicting pressures of institutional duality – subsidiaries will be disadvantaged in the host country’s institutional context (Kosova, 1999).

In contrast, findings of this study show that subsidiaries not only intensify political activities in the ‘institutionally distant’ host country environment (Kosova, 1999), but managers of subsidiaries integrate both home and host country resources as assets in designing a localised and adapted lobbying portfolio. As a result, the lobbying strategies of subsidiaries and domestic firms show significant differences. In Hungary, MNE subsidiaries gain competitive advantage over domestic firms in the nonmarket environment, because they integrate both the ‘institutionalised’, transparent ‘rules of the game’ as well as the more opaque, informal, less institutionalised host country requirements into their strategy design.

The new strategy consists of two parallel processes. First the subsidiary transposes some elements of the parent’s lobbying resources and adapts these to the local context, while it also builds up and systematically professionalises the local network-based resources and relational strategies that are used by host country firms. By integrating both sets of resources into the subsidiary’s lobbying capability mix, MNEs gain an advantage in the host country’s nonmarket context. This dual approach equips subsidiaries with enough know-how to lobby with ease in the emerging capitalist institutional setting and even makes them competitive compared to their local domestic counterparts. Indeed, their host country competitors limit themselves to a local ‘network-based’ strategy, which they develop through the mobilization of the top management’s interpersonal relationships. The network-based strategy means that neither a declared, formal budget, nor personnel is dedicated to corporate political activity, instead solely networks are used as capabilities to influence decision-making, without a formalised strategy. The chart below (chart 2) shows how domestic resources are turned into the network-based strategy:

Chart 2: The process of how domestic resources are turned into a network-based strategy



The network-based strategy has its limitations. The most striking is that firms' top management does not develop additional, specialised capabilities for lobbying, but only leverage existing internal resources, in the form of personal connections. As the public sector does not require professional 'access goods' in the form of information and expertise, at domestic firms lobbying capabilities do not become structured and formalised. As domestic companies are not impacted by the opportunity structures of institutional duality, they can only use the resources that are available at the domestic level.

## Conclusion

Peng and Heath posited that the prevalence of network-based strategies is a reaction to the institutional frameworks in transition economies (1996). Extending this claim, findings of this study suggest that subsidiaries not only engage in network-based (Peng, 2003b, Peng and Heath, 1996) or relational strategies (Luo and Zhao, 2013), but reacting to the pressure of institutional duality, actively design a 'combined' strategy in emerging economies. In addition

to transposing and adapting their MNE strategies in the host country context, they strategically professionalise local strategies in order to gain competitive advantage in the local nonmarket environment.

This finding builds on Boddewyn and Brewers' view that the forms and intensities of IB political behaviour are affected by the firm's strategic choices of resources (1994). In other words, by exploring the impact of institutional duality with the view of how it endows firms with a special set of capabilities, this article sheds light on how subsidiaries design their strategies in host country contexts. Evidence presented in this article illustrates that subsidiaries design their lobbying portfolio by cherry picking and adapting different elements of the home and host country capabilities as well as professionalising local strategies. I argue that this complex localised strategy is an important element of how MNEs gain competitive advantages and global leadership in emerging market contexts. By identifying a theoretical connection not previously addressed between the literature on corporate lobbying, institutional duality and organizational capability the study revealed how political capabilities are organized in a host country context.

Applying the resource dependence theory to the investigation of lobbying exchanges the article illustrated how the 'developed' and 'emerging' institutional contexts impact exchange relations and consequently the characteristics of lobbying that lead to success in different institutional environments. By analysing subsidiaries' strategies in the context of institutional duality and comparing their activities with host country firms' practices, I argued that subsidiaries consciously and strategically design their local lobbying portfolio by turning parent and host country resources into political capabilities as assets in an integrated lobbying strategy. In their dual strategy subsidiaries adapt their 'global' practices to the local environment, while at the same time 'professionalise' the local relational strategies. With this adapted strategy they are able to gain a competitive advantage vis-à-vis domestic businesses

and access the host country's political decision-making efficiently. While the majority of existing studies limit their investigation on multinational subsidiaries (Blumentritt and Nigh, 2002, Lawton and Rajwani, 2011, Nell *et al.*, 2015, Tempel *et al.*, 2006), some studies reported significant differences between the strategies pursued by MNEs and local companies (Akbar and Kisilowski, 2015). Akbar and Kisilowski found that MNE managers use regulatory convergence toward EU norms as a source of competitive advantage vis-à-vis local firms in the post-socialist context (2015). The current study contributes to this claim by exploring the differences in political strategy building between local firms and MNE subsidiaries. Findings of this qualitative analysis suggest that while local firms design their political capabilities based on the resources they draw solely from the local institutional context, MNEs rely on resources both from their host country as well as from their home country contexts.

This study addresses earlier calls for research to explore how context-specific resources are developed by interaction of global and local processes (Meyer and Peng 2005) and how the interaction between the corporate and host-country forces exert influence on subsidiary political activities (Blumentritt and Nigh, 2002). Findings contribute to IB literature's claim that foreign subsidiaries develop their own advantages in host country contexts (Rugman *et al.*, 2006). However the evidence presented show that the conformation to local institutions does not necessarily mean giving up the comparative institutional advantage as previous literature has claimed (Ahmadjian, 2016, Luo, 2002), but instead could contribute to gaining advantages over local competitors.

Furthermore, instead of constraining MNE subsidiaries' strategy choices as was previously suggested by studies that focus on legitimacy (Kostova and Roth, 2002, Kostova and Zaheer, 1999), if viewed from an interdisciplinary angle, through the analytical framework of resource dependence, institutional duality shapes subsidiaries' capabilities for strategy

development and enables them to design a more competitive, localised strategy than local firms. The 'combined' strategy is more complex and more professional than those of domestic firms' and hence allows subsidiaries to gain competitive advantages in the host country's nonmarket environment. Limitations are evident. The nature of the case study limits the generalisability of findings. Further research should explore whether subsidiaries react to institutional duality the same way in other post-socialist as well as emerging economies.

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