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The corporate political activity of MNEs under the pressures of institutional duality

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Abstract

The paper investigates how multinational subsidiaries develop their political strategies within the constraints of institutional duality. Based on the empirical investigation of western subsidiaries operating in the post-socialist institutional context of Hungary, I develop a model that illustrates how political capabilities – affected by institutional duality - underpin the lobbying strategy of MNE subsidiaries. The article makes a theoretical connection between the literatures on institutional duality and corporate political activity (CPA) and makes 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 factor that constraints companies and disadvantage them in the host environment (Nell et al., 2014, Tempel et al., 2006). Third the study contributes to the theory of MNE parent-subsidiary management literature by extending our knowledge on how parent strategies affect the development of subsidiary's political strategies.

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1. Introduction

Political strategies of multinational enterprises (MNEs) are increasingly seen as important nonmarket elements of firm strategies (Nell et al. 2015). Previous research within the international business literature has investigated MNEs' political strategies from an institutional theory perspective, focusing on the impacts of the host country environment on subsidiaries (Blumentritt & Nigh 2002; Blumentritt 2003). Within the institutional duality context scholars have limited their focus on the determinants of MNE subsidiaries' political strategies (Hillman and Wan, 2005), and argued that the institutional pressures from public and private nonmarket actors in emerging markets lead to increased political activism (Nell et al. 2015). However we still know little about the firm-level strategy building process itself. 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, yet do not explore whether these subsidiaries implement any of their parent strategies in the host context as well, and if so how. Second, existing studies do not explain to us how subsidiaries address the conflicting pressures of institutional duality in their strategy-making process. 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.

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 parent and host country forces on the development of subsidiary's political activities we need to investigate the mechanisms, and the strategy-building process on the firm level.

Therefore, in contrast to existing literature, in this study, the level of analysis is the firm, which has been largely neglected previously in institutional scholarship (Greenwood et al., 2014).

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 transposing their parent 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) as it was suggested in earlier studies, subsidiaries use political resources from their external and internal environment and turn them into political capabilities under the influence of institutional duality. By organising resources from the parent company, the host environment and the subsidiary firms develop a unique political strategy that is completely localised, but is based on a mixture of arm's length and network-based lobbying capabilities. This way, local subsidiary managers may use the home country as a resource centre to support the strategies designed in the host country's institutional environment, but their behaviours are not 'controlled' to be aligned with the parent company's intentions as was previously suggested (Birkinshaw & Pedersen 2009).

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.

Rather than aiming to develop a definitive framework to explain subsidiary capability development this article attempts to illustrate some ways in which firms address institutional complexity when developing political strategies in emerging host country contexts. The article is structured as follows. First I explore how political strategies differ in western and emerging capitalist systems. Then I describe the theoretical framework, and the methods. In the following sections I introduce the empirical case, and investigate the political capabilities and strategies of MNE subsidiaries in Hungary. In the final section I conclude.

2. Corporate political activity in western and emerging capitalist systems

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). 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, 2013a). This importance is magnified for foreign firms, since local firms might enjoy domestic privileges (Kostova and Zaheer, 1999). Hence, firms engage in political activities, because the social, political, legal and cultural institutional context affects their ability to success in the market place (Feinberg et al. 2015) and may 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 and to influence decision-makers' opinions (Nell et al., 2015).

Research suggests that the way in which firms engage in political activities in western and emerging capitalist systems is different. In developed market economies, corporate political activity (CPA) is "largely about legal, firm-level engagement with institutionalised political actors and structures" (Lawton et al., 2012: 87). Scholars define public affairs in the western capitalist contexts as an issue-driven activity, in which the rules of the game are more or less transparent and clear (Griffin & Dunn 2004; McGrath 2005; Van Schendelen 2012). Hence CPA in the western institutional framework is mostly viewed as an "essential, legitimate and distinguishable activity, which supplements business activity" (Hadjikhani and Ghauri 2006: 391). According to studies, political strategy is dominantly managed through arm's length, formalised and increasingly professionalised practices (Mcgrath 2008; McGrath 2005; Mcgrath et al. 2010), 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). Of course this does not imply either that informal, or formal networks would not be an important part of lobbying in these systems, or that of interpersonal

relationships are not important in consolidated market economies. Indeed earlier studies have indicated that interpersonal power relations (Granovetter 1985) and social networks matter in western societies as well (King & Pearce 2010; McDonnell & Werner 2016). However, the importance and the occurrence of informal and relationship-based practices in nonmarket strategy are significantly smaller than in emerging market economies, where the “kind of structured CPA known in developed states has been largely presumed not to exist” (Lawton et al. 2012: 7).

As a result of its post-socialist institutional development, in central and eastern European (CEE) countries public affairs are not understood as ways of interest representation and lobbying, which create a legitimate link between business, society and the government (McGrath et al., 2010), but are rather viewed as a form of corruption (Millar and Koppl, 2014), or at least the extensive use of connections or cronyism (Lawton et al. 2012). In emerging capitalist systems including CEE, 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 political strategies (Millar and Koppl, 2014) and hence to develop a professional public affairs culture (Harsanyi and Schmidt, 2012). This striking difference between CPA strategies is not surprising if we look at the institutional context of eastern European capitalism.

The first 20 years of transition has created an institutional environment, 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 here informal institutions (Meyer and Peng, 2006) and interpersonal networks (Peng, 2003b) have a much more crucial role than in advanced capitalist societies (Hancké et al. 2012; Sik & Wellman 1997; Bohle & Greskovits 2009; Hancke 2009). 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). In these systems, political activity for firms revolves around social networks and the exploitation of

family or other social connections and business networks (Lawton et al. 2012:7; Peng and Heath, 1996). The weak nature of formal institutions encourages firms to develop informal relationships (Peng, 2003c, Luo and Zhao, 2013b) as well as informal political engagement strategies (Lawton et al., 2012). As these network-based strategies are less transferable than other capabilities, MNEs often hire local managers to manage their political activities (Luo and Zhao, 2013b) or engage in buffering strategies if political connections become disadvantageous due to the change in political leadership (Boddewyn and Dieleman, 2012). 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 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). Here 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).

From the discussion above it is easy to see why MNEs from developed market economies may 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, professionalised and transactional political strategies, while on the other hand they face the external pressures towards network-based exchange mechanisms and informal practice (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 (Meyer and Peng, 2016).

3. Theoretical framework

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). 'Institutional duality' refers to the conflicting pressures that subsidiaries face, when they try to adopt their parent's strategies in the host country's external institutional constraints (Kostova and Roth, 2002: 227). A number of studies claim that political activities of subsidiaries are affected 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). Besides, earlier studies argue that industry competition and the country's political institutional structure may also 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). Yet, what is missing from the literature is a detailed work on the mechanisms through which the forces stemming from institutional duality shape business arrangements and conceptual frameworks. We know little about how subsidiaries develop and manage their local political strategies within the conflicting dual institutional constraints. While earlier studies have explored institutional duality, they approached the topic from an institutional perspective, leaving the 'black box' of firm-level strategy making unexplored.

At the level of the firm, institutional theory can be linked back to the resource-based view (RBV), as it helps us understand how firms adapt to changes and evolutions in their non-market environment, particularly in emerging markets (Lawton et al. 2012: 7). By focusing on how firms develop their lobbying capabilities within the constraints of institutional duality, it seems logical to view nonmarket strategies not only within an institutional level perspective as previous studies have done (Tempel et al. 2006; Hillman & Wan 2005; Nell et al. 2015), but rather as a firm level, political capability building process. Hence, in this paper I will apply the resource-based theory to the analysis of MNE subsidiaries' lobbying activities.

According to 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; Taminiau and

Wilts 2006) and turn their available resources into lobbying capabilities (Lawton and Rajwani 2011; Lawton, Rajwani et al. 2013). Hence in this context, managerial choice becomes crucial. 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). Political capabilities can be internal and external in nature (Oliver and Holzinger 2008). While internal capabilities refer to individual lobbying by the firm, external capabilities describe political action through trade associations and contract lobbyists (Lawton, Rajwani et al. 2013). In this article both internal and external capabilities will be explored.

Previous studies explored what type of subsidiary, host country and parent factors may be linked to the legitimacy of subsidiaries’ political strategies (Hillman and Wan, 2005). Hillman and Wan argued that both formal and informal institutions are important factors in determining foreign subsidiaries’ political strategies (2005). However they have not explored in what ways these formal and informal institutional factors become integrated within the subsidiaries local strategies. Similarly, earlier research have explored the ‘antecedents’ of how political capabilities are organised within changing transnational policy context and highlighted the crucial importance of managerial choice in organising political capabilities (Doh et al., 2012, Lawton and Rajwani, 2011, Lawton et al., 2013). However these studies have not informed us about the process through which capabilities are turned into strategies within the conflicting constraints of institutional duality.

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. Therefore this article explores the following interrelated research questions (RQ):

RQ1: ‘How political capabilities - formed through the pressures of institutional duality - emerge and underpin the political strategies of MNE subsidiaries?’

RQ2: ‘How subsidiaries organise and manage corporate political activities (CPA) within the pressures of institutional duality?’

RQ3: In what ways are subsidiaries affected by the parent company's political strategies and CPA activities in the development of their local political strategies?

Answering 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. 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) abroad. Consequently one would expect that MNE subsidiaries may gain competitive advantage in the network-based host country context by implementing the professional, arm's length political strategies used in their mother country. Hence this article will test the following proposition.

Proposition 1: MNE subsidiaries transpose their parent's political strategies in the host country in order to gain competitive advantage locally.

In contrast to the home country, in the emerging market context, 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 enable a firm to acquire or retain a competitive advantage (Doh 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), 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).

Indeed, 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, 2013b). Accordingly, 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, 2013b). Based on these earlier findings 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 parent.

Proposition 2: MNE subsidiaries engage in network-based political strategies in order to adapt to the local institutional requirements.

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).

Proposition 3: MNE subsidiaries 'pretend' to follow the political strategies of the parent company, but in practice they engage in network-based lobbying (ceremonial adaptation).

The current study will test these propositions by investigating the political strategies of MNE subsidiaries in the post-socialist, network-based institutional context of Hungary.

In this article I attempt to achieve two goals. First to conceptualise the strategy building process of MNE subsidiaries within the pressures of institutional duality, and second to develop a model that illustrates how political capabilities (that underpin these strategies) are formed through institutional duality.

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 factor that constraints companies and disadvantage them in the host environment (Nell et al., 2014, Tempel et al., 2006). Third the study contributes to the theory of MNE parent-subsidiary management literature by exploring the ways in which parent strategies affect the development of subsidiary's political strategies.

4. Methods

The study is based on the case study of Hungary. Building theory from a case study is a strategy that involves using a case to create theoretical constructs, propositions and empirical evidence (Eisenhardt and Graebner, 2007). As the research questions of this study are process-related questions, focusing on how subsidiaries develop lobbying strategies, a qualitative approach was chosen. The focus of the study is to explore an actual phenomenon that has rarely been addressed and answered previously. In such cases, when "how and 'why' questions are being

posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon” the case study method is the preferred strategy (Yin 1984: 1).

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-Kończowska, 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) and where the impacts of institutional duality have increased substantially. 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. Although the representativeness of the case study is limited, due to its ‘critical’ nature, nevertheless the Hungarian case may not be unique for at least two reasons. First, in the future, other states from the region may also turn into a similar developmental path (Vliegenthart 2010) and second - even if other countries continue on a more democratic developmental path – it is presumed that the system characteristics of post-socialist capitalism, that affect business in Hungary, influence firms in other EE states too, even if on a less observable way.

Data collection and data analysis was carried out in parallel, which made it possible for the researcher to develop theoretical insights and propositions, while testing and modifying these as the project evolved. Overlaps in data collection and analysis is argued to be beneficial, since it speeds the analysis and “reveals helpful adjustments to data collection” (Eisenhardt 1989: 535).

The empirical study comprised 46 semi-structured interviews out of which 39 were conducted with business people and a further 7 with experts such as political advisors, or representatives of NGOs and associations. In-depth interviews are an insightful method for exploring the “often nuanced causal factors of specific managerial action” (Lawton et al. 2013: 231). It is argued that quantitative data would not be able to reveal the often complex thought processes that determine managerial decisions in relation to lobbying engagement. Due to the exploratory nature of the research, the semi-structured interview technique provided a single framework for the different interviews – since it permits comparison (Flynn, Sakakibara et al. 1990) – but also gave flexibility to ask questions, in relation to previously not identified issues that arose from the interviewee’s comments (Bryman 2004). This type of interviewing also provided the flexibility for participants to highlight issues they considered most relevant in relation to the topic (Bryman, 2004).

Interviews were conducted in between 2009 and 2016. 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). The sample comprised of CEOs and PA directors at MNE subsidiaries and top managers at domestic Hungarian firms. Only MNEs from western countries were included in the study, the interviewed subsidiaries originated from the UK, Italy, France, Germany, the Netherlands and the US.

Type of firm	Number of interviews
MNE subsidiary	20
Hungarian state-owned company	7
Hungarian private company	7
Hungarian SME	5
Total number of interviews with business leaders	39

The sectoral share of interviewed firms has been rather diverse, since companies from 15 different sectors have been included in the sample. Out of all the sectors, the banking sector with five, while the energy, retail and manufacturing sectors with 3-3 interviews had the most respondents within the sample. Interviews were coded and analysed by NVivo software. The software helped in displaying ideas and creating links between themes and occurring patterns. After the transcription of interviews the researcher coded the data according to themes that

seemed to be reoccurring. Based on the nodes that have been formed the researcher identified patterns and arranged key themes. In the analytical work, the framework of Miles and Huberman (1994) has been applied, and their codified procedures for qualitative analysis were followed - namely the process of reducing data, displaying data and drawing and verifying conclusions.

5. The role of political capabilities in strategy formation

In this section we will explore how MNE subsidiaries design their lobbying capabilities in the post-socialist context. 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). Indeed, while the parent MNE might require mostly transparent, formalised and arm's length public affairs practices, in the host country environment access to policy-making is provided through informal, top-level and often non-transparent lobbying practices. Furthermore, as these difficulties do not affect purely domestic firms - as they are not experiencing the conflicting pressures of institutional duality - subsidiaries may become disadvantaged in the host country's institutional context (Kosova, 1999).

Hence the first question that we will investigate is: How political capabilities emerge and underpin political strategies within the constraints of institutional duality?

Findings of this study show that in Hungary, most - although not all - investigated subsidiaries had a public affairs (PA) or government relations team or a person assigned to deal with government relations. These units are equipped with human resources and mostly, but not always, a separate budget. Subsidiaries may also extend their lobbying capabilities by contracting public affairs agencies as an additional resource for the in-house unit and may be politically active through associations and chambers of commerce. Firms' public affairs function is defined in the literature as an organizational unit "responsible for maintaining external legitimacy by managing the interface between an organization and its socio-political environment (Meznar and Nigh 1995: 975). Studies show that "public affairs as a distinctive function is more likely to be found in larger national, international and global" companies (Moss, McGrath et al. 2012: 48), however the size, structure and scope of their activities may be very diverse in different countries (Moss, McGrath et al. 2012), nevertheless corporate lobbying

constitutes a part of the public affairs function (Harris, Moss et al. 1998). Although in a minority of all the investigated cases, but interviews showed that at some subsidiaries the CEO manages political strategies alone, without being supported by a public affairs team or a director. Besides the public affairs department/director however subsidiaries rely on several other internal and external resources in their political strategies.

Below table 1 indicates what type of resources multinational firms use in their local political activities in Hungary.

Origin of resources	Internal resources	External resources
Subsidiary	<ul style="list-style-type: none"> • PA department or person • CEO of subsidiary 	<ul style="list-style-type: none"> • Interpersonal network to political decision-makers and other corporate leaders
Host country		<ul style="list-style-type: none"> • Membership in sectoral association • Membership in chambers of commerce • Professional, local public affairs agencies • ‘Intermediaries’ to get access to prime minister-level decision-making
Parent company (MNE)	<ul style="list-style-type: none"> • CEO of European headquarter or mother company • Parent company’s standards and procedures (through compliance) • Pool of resources of mother’s public affairs department 	Interpersonal networks to the political decision-makers of the parent’s home country

As the table illustrates in this study I have identified resources according to their origin as well as whether they are internal or external in nature. I define internal resources as those that are available within the organisational structure of the firm, whereas external resources refer to those that the firm acquires from its environment (both in the host and the home country). Subsidiary-level resources refer to those that are available within the subsidiary (internal), or which belong to the subsidiary, but are drawn from the external environment (external) like interpersonal networks of the subsidiary's staff in the host environment. I identified host country resources, as those, which are available and drawn from the host environment, however which remain external to the subsidiary due to the nature of the contractual relationship, like memberships in external bodies and public affairs services bought from external agencies and intermediaries. Resources at the level of parent company refer to those political resources that are available within the parent company's organisational structure - like its public affairs know-how or standards and procedures - or which are available externally in the parent's company's country of origin, like the networks of the parent's staff to the mother country's political leaders. Interviews suggest that in Hungary interpersonal relationships and network-based resources are crucial for lobbying strategies. Hence it is not surprising that MNE subsidiaries' PA directors often work closely together with the CEO of the subsidiary in political activities. Furthermore respondents argued that the CEO of the European headquarter in the case of US firms, or the CEO of the mother company at European firms is also likely to be involved in the political activities of subsidiaries if the political context requires it. Unlike in the home country context, here the CEO holds a much more important role in lobbying and hence is often involved in direct political negotiations with policy-makers. The importance of top-level networks has been discussed in more length elsewhere (Sallai 2013), nevertheless it is important to highlight the involvement of CEOs here as well, as in the Hungarian context the CEO represents an internal 'resource' that is integrated into the local lobbying strategy.

Findings suggest that the lobbying strategy that MNE subsidiaries develop in Hungary is a mixture of ingredients from resources, available within the MNE, the subsidiary as well as the local emerging capitalist environment. The following chart (chart 1) shows how these resources are turned into political capabilities and how institutional duality contributes to capability development and strategy design:

managerial choice of subsidiaries' top-level decision-makers has a crucial role in how these resources become integrated into political strategies. However as the chart shows, the use of these resources is impacted by the forces of institutional duality.

Findings of this study suggest that subsidiaries use both external and internal resources in their localised strategy by turning them into different network-based and arm's length political capabilities. However the proportion of use of network-based and arm's length capabilities differ according to sectors and companies. The differences in how much managers rely on network-based and/or arm's length capabilities within the localised strategy depend on how managers perceive the pressures of institutional duality.

Since 2010 the Orban government has increased its influence and intervention in the economy (Bozóki 2012) and introduced exceptionally high special taxes in key service-related sectors, such as banking, retail, telecoms and energy (Euractiv 2012). Findings suggest that firms in sectors, which are less affected by state intervention and dominance (for instance manufacturing), rely more on arm's length capabilities in their political strategies than those companies which are highly affected by government intervention, special taxes and regulation – such as retail, telecoms or banking. Firms in sectors of high government intervention seem to rely more on network-based capabilities and value arm's length capabilities in their political strategies less. In these sectors, firms feel more exposed and argue that they need to engage directly with the government through network-based strategies as arm's length strategies - through for instance associations and chambers - do not lead to sufficient political results. In contrast, managers of firms in less state-dominated sectors seem more positive about the government in general and prioritise to engage with the government through arm's length practices, and interest groups.

These findings are not surprising as - since 2010 - the government has dismantled the emerging post-socialist corporatist structures and introduced centralised governance with the almost complete exclusion of social partners from political decision-making. Organized interests today face a completely different institutional environment compared to the pre-2010 period. In this new context, the government chooses its partners selectively by ignoring those that are well-established but not 'friendly' and privileging those that are politically controlled or 'pro-government'. Particularism also takes form in the government's efforts in ignoring existing, well-established associations and supporting the creation of new ones, which are less critical towards the governing elite. One-sidedness also presents itself in how the government selects its negotiating partners. In 2012, the government has introduced the system of 'Strategic

Partnerships' with the aim to include the "civil sector in the preparation of legislation" (The Hungarian Government 2012). The newly introduced system of social dialogue is a good example of how universal interest representation rights have been exchanged to particularistic, relationship-based ones. Under the new framework, interest groups are supposed to directly negotiate with the ministries in legislative procedures. Consultations however, are based on invitation only. Hence only those organizations can get involved, which are invited by the relevant ministries. Consequently, all non-invited organizations are excluded from consultations. In practice, a centralised and clientele-based consultation structure has been introduced, which formally satisfies the political rhetoric of providing social dialogue, but lacks real rights and opportunities for stakeholders to engage in public decision-making through formal, institutionalised channels.

Similarly to the civil sector, after almost two years of complete lack of dialogue, in 2012 the government also 'opened' politically towards the business sector. Yet, instead of following the paved route of business dialogue through associations and the Interest Representation Council, it signed 'Partnership Agreements' with individual firms. By July 2016 the Ministry of National Economy has signed agreements with 69 companies, including many multinational subsidiaries. The agreements are based on individual criteria and informal deals, without any transparent procedure and publicly available information. The agreements are negotiated through informal personal negotiations, and the ministry publishes a news feed about the deals, containing some objectives of the cooperation, only when contracts are already signed (Sallai, 2014).

The chart below illustrates how the subsidiary manages political activities with its nonmarket stakeholders in this centralised network-based capitalist environment. Although there are some variations between companies, in general, public affairs departments at subsidiaries reach out for political resources to their CEOs, sectoral associations/chambers of commerce as well as their parent company. Yet, when lobbying, they channel information to different levels of the public administration. First they target policy-making at administrator level in the central government or alternatively at the level of the local municipality. On this level they channel information through their membership in associations/chambers as well as in highly regulated sectors, directly through the public affairs team. Second on the senior ministerial level they engage via the same routes as before, however at this level, the CEO may get involved as well. The communications director at subsidiary 7 underlined the importance of the CEO the following way:

“I manage the state-secretary level, but for the ministerial level you need the CEO or a first level leader.” (communications director at subsidiary 7)

Third, subsidiaries – especially in sectors that are pressured with high government intervention – also engage with policy-making via getting in touch directly or indirectly (through intermediaries) with the prime minister. At this level however the CEO is the key person in lobbying and the public affairs department/director only has an intermediary role.

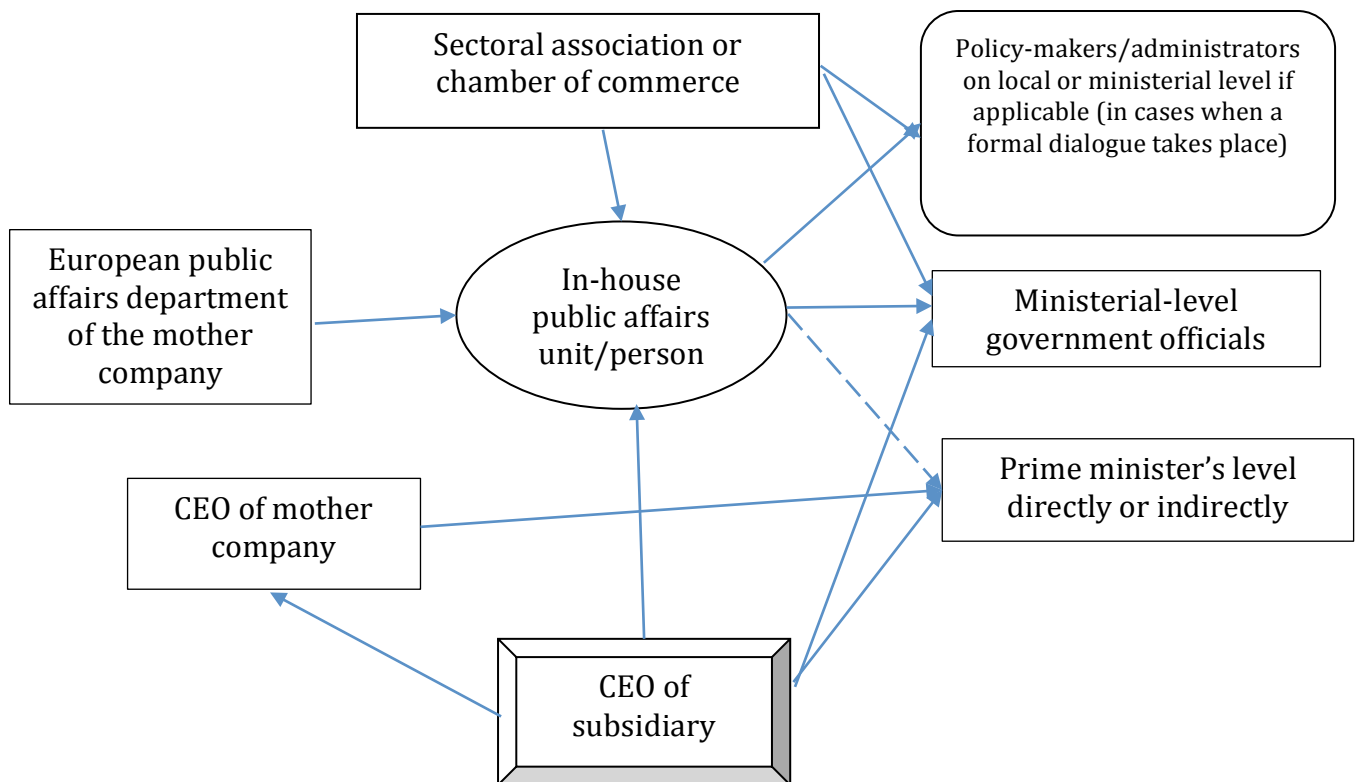


Figure 1: Lobbying process at subsidiaries

Figure 1 illustrates how resources and influence are channelled within the lobbying process. The CEO of the subsidiary may get involved at lobbying the ministerial as well as the prime minister’s level. However, when engaging at the prime minister’s level, the subsidiary’s CEO often reaches out for the CEO of the mother company (to use his/her power as an internal resource) and at the same time supports the PA department with his/her own influence as well, in lower-level engagement. The European PA department of the parent company (or European headquarter in case of US multinationals), as well as the sectoral association and/or chamber of commerce provide resources for the subsidiary’s PA department to channel influence on all three levels of engagement. I used dotted lines between the subsidiary’s PA department and the prime

minister's level as at this level - although the PA department usually gets some role in organising the meetings - it is generally not involved in the actual lobbying process.

It might be surprising that subsidiaries channel their political messages not only to the level of public administrators and the ministerial level, but also occasionally to the level of the Prime Minister. Interviews suggest that some policy fields and sectoral decisions have become so centralised during the Orban administration that the Prime Minister himself has a crucial role in making decisions. Especially in sectors of strong state intervention, several companies mentioned that they try to get direct contacts or contacts through intermediaries to the Prime Minister to influence decisions that might affect their operations. Furthermore, due to the centralised and almost authoritarian characteristics of Hungarian post-socialist capitalism, subsidiaries feel it is necessary to extend their networking capabilities with the interpersonal relationships of the parent company. As the CEO of subsidiary1 explained:

“Since this regime has come to power, they [government officials] have come to us and said you are a subsidiary, we want to talk to the boss. So this government has been very consistent...they do not consider us [CEOs of subsidiaries] the decision-makers, they want to go straight to [the name of the parent company anonymised], straight to the top. Before this regime, I was considered the decision-maker, now it is the headquarters.”

As a consequence, in order to meet the requirements of the local institutional context, multinational subsidiaries find different ways to adapt their lobbying strategies. Besides employing local CEOs or a local 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 by the CEO of Subsidiary9 shows how open subsidiaries are to the requirements of the local context.

“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. 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...”¹

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,

¹ CEO, Subsidiary9, interviewed by author in Budapest, 24.01.2012

and adapt to this requirement by linking top managers of the mother company or the subsidiary with the relevant, local decision-makers. Findings discussed so far provide new insights into how subsidiaries develop their political capabilities and manage their CPA within the pressures of institutional duality.

As it becomes clear from the discussion, Proposition 2² was supported by the study's findings. MNE subsidiaries were found to engage in network-based political strategies in order to adapt to the local institutional requirements. Subsidiaries develop network-based lobbying capabilities with the integration of internal and external resources and rely on these capabilities in their lobbying strategies. Although all companies were found to rely on network-based capabilities in their CPA to some extent, firms in sectors of stronger state intervention were found to engage more in network-based practices as they are more exposed to government. The following quote from the CEO of subsidiary1 explained the need of the network-based strategy the following way:

"There are only a very few real decision-makers. So you really have to have a line in the top. Empowerment is not really happening. So really, truly everything goes right straight to the top. There are two or three people that influence the prime minister, but even they do not make the decisions - ultimately the Prime Ministers makes the decisions."

The quote from the communications director at subsidiary7 also highlights the importance of network-based capabilities:

"There is a regular, very high level relationship between us and the government, where behind closed doors we get very reassuring signals".

Besides the adaptation to network-based lobbying, in the empirical part of this study, I have also tested how MNE subsidiaries transpose their parent's political strategies in the host country context. Proposition 1 explored whether MNE subsidiaries transpose their parent's political strategies in the host country in order to gain competitive advantage. The study investigated whether subsidiaries take 'ready-made' processes and know-how from the parent and adapt these to the local environment or transpose them without much adaptation?

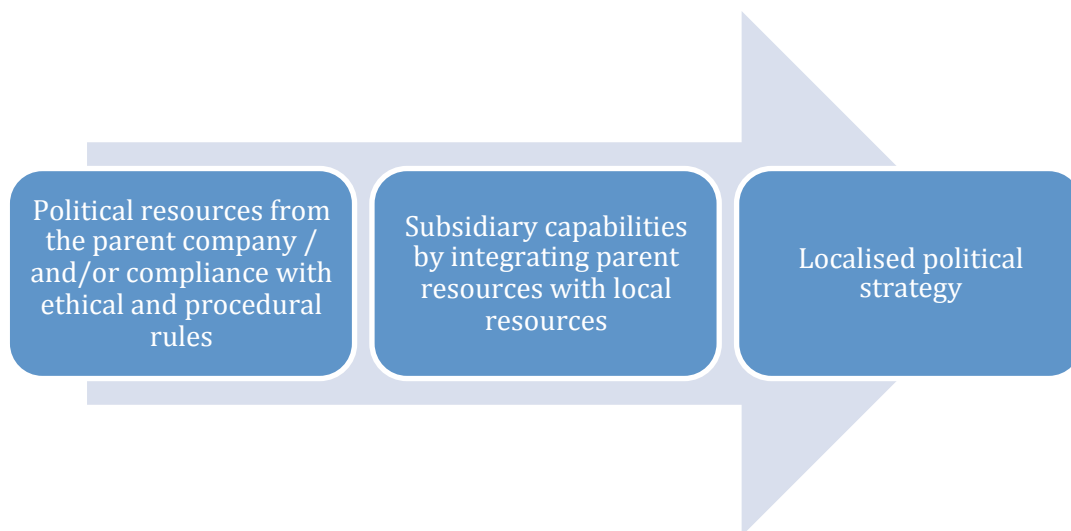
Proposition 1 was not supported by empirical evidence. Interviews suggest that subsidiaries rely on the resources of the parent company in their lobbying strategies, however only as much as they can be usefully integrated into their unique localised strategy. Subsidiaries were found neither to rely on their parents in designing their local strategies, nor transposing parent processes or strategies directly in the local context. Instead, in contrast to the initial expectations

² Proposition 2: MNE subsidiaries engage in network-based political strategies in order to adapt to the local institutional requirements.

of the researcher, they were found to design, organise and manage their local political strategies in accordance with the requirements of the host country context, while only using the parent company's resources as a pool of expertise or rather like a support hub in case of need. Some of them were even found to rely on parent resources only for compliance and not on strategy development. Interviews show that the subsidiary designs a local lobbying strategy, integrating network-based and arm's length capabilities, while relying on some of the parent's resources. In contrast to the initial proposition however the parent's lobbying strategies are not transposed directly. The following quote from the Director of communications at subsidiary 7 illustrates this claim:

"We can use the frameworks that they [parent company] provide, so for instance to have a corporate narrative, the mother company provides the resources for stakeholder analysis and monitoring. They have a PA company and they also help us how to put together a communications narrative, we can rely on their know-how in this. They cannot help us in sorting out local conflicts as their cases are completely different."(Interview with subsidiary7)

The chart below illustrates the conceptual framework of how parent strategies are integrated into the subsidiary's localised political strategy:



This process was found at most subsidiaries. Consequently, the evidence of this study suggests that subsidiaries, which operate within the pressures of institutional duality organise and manage their political activities by integrating resources from the parent company as well as the host country in a unique mix of localised political capabilities. This is a new contribution to the literature as earlier quantitative studies could not identify how parent strategies are transposed

within the institutional duality context (Cuervo-Cazurra 2006; Holburn & Zelner 2010; Hillman & Wan 2005).

So instead of implementing or transposing parent strategies in the host context, they develop a localised strategy with the integration of resources from the parent company. The director of government relations at subsidiary 2 explained this process the following way:

“The parent company does not necessary know what the local environment is like and how we can operate here. They serve us as a knowledge centre, when I need information I go the government affairs lady in [parent company’s location] and I ask about vocational training in Europe. So they provide background and support for us, they are not at all actively involved in what we are doing here on the political level.” Director of government relations at Subsidiary 2

Surprisingly, subsidiaries were also found to manage corporate political strategies in a more independent and less integrated way than earlier literature suggested. In earlier studies Hillman and Wan (2005) argued that subsidiary political strategies are likely to be affected by parent strategy (2005: 328), but they did not inform us about the process of this influence. This study addresses this gap in the literature and extends Hillman and Wan’s suggestion. Based on the findings, I posit that although subsidiaries are indeed affected by parent strategy, this impact is channelled through support, compliance and guidelines, rather than the direct ‘transfer of political skills internally’ or the ‘use of similar strategies’ across individual subsidiaries (Hillman and Wan, 20015: 328) as it was suggested earlier.

The following quote from the CEO of subsidiary 1 illustrate well how independently subsidiaries form their political strategies:

“They [parent company] leave the strategy, the initiative to me. To figure out what we can trade, how to manage this relationship. If you need the CEO [parent company’s CEO], if you need help from above [from the parent company], call us [parent company] and we will come and help. If the meeting needs to take place in [location of parent company anonymised], so be it, but the CEO [of the parent company] does not keep the Hungarian agenda on his screen. It is essentially my responsibility, up to me to make the initiative, I get very little substance in guidance in our PA strategy from [location of parent company anonymised], you need to meet your targets, you figure out how you do it.”

Findings also suggest that some subsidiaries do not rely on the political resources of their parent at all, moreover some subsidiaries manage their political strategies completely independently from the parent company. In these cases the subsidiary is given a ‘free hand’ in political strategy management and they are only required to comply with the parent company’s ethical standards.

When asked about how the mother company affects their lobbying strategy, the director of public affairs at subsidiary 8 stated:

“Not at all. If I have an idea about how I will approach a given topic, I go to my boss [subsidiary’s CEO] and we chose the most suitable [approach].” (Director of public affairs at subsidiary 8)

Similarly, when asked whether they take any political strategies or processes from the headquarters, the CEO of subsidiary 4 replied:

“No, I am given a free hand, the only think is that I have to inform them [parent company] about events.” (CEO at subsidiary 4)

Whereas the Director of government relations at subsidiary 2 stated: *“we basically develop our own political capabilities”.*

The quotations above suggest that subsidiaries are empowered by parent companies to organise and manage their political strategies as they see fit, and rely on parent resources as and when they feel necessary.

The only issue that seems to be common at all subsidiaries is their compliance of the parent company’s ethical and procedural requirements. However how compliance is managed depends largely on the individual decision of the subsidiary’s CEO as well.

As an example, when being asked about the mother company’s influence on their political strategies the communications director at subsidiary 7 explained:

“We have very strong ethical compliance standards. It is natural, however sometimes it is not easy to adhere to them.”

Subsidiaries struggled to give examples of cases when the political strategy of the parent company conflicted with their own local level responses. The majority of respondents argued that it is a major part of their job to mediate between the local environment and the parent company and therefore although institutional duality manifests itself on a daily basis, in political strategy making it does not seem to cause a problem or a constraint. As the CEO of subsidiary 2 explained:

“It is the pivotal role of the management team to be the mediator between these two worlds and if they [parent company’s management] do not trust me then we already have a challenge and a problem.”

Similarly, when – in relation to compliance – the CEO of subsidiary 4 was asked whether he has to write a memo when he meets a minister, he answered: *“I should, but I normally do not.”*

Based on the discussion so far it is evident that subsidiaries do not transpose their parent strategies in the local context, but integrate resources from the parent company into the lobbying capabilities that they develop for the local context.

Besides the adaptation to network-based strategies and the transfer of parent strategies in this study I have also explored Proposition 3, trying to find evidence for ceremonial adaptation suggested by earlier studies. I have tested whether MNE subsidiaries 'pretend' to follow the political strategies of the parent company, but in practice they engage in network-based lobbying (ceremonial adaptation).

Proposition 3 was not supported by the findings. First of all, interviews suggested that subsidiaries are transparent towards their local lobbying strategies *vis a vis* their parent companies as they are given rather large freedom and room of *manoeuvre* in how they organise and manage their CPA. Secondly, they often involve the parent company's CEO in some of the local strategies, especially in cases when they rely more intensively on network-based capabilities. Thirdly subsidiaries openly rely on and integrate the parent's resources in designing their network-based and arm's length lobbying capabilities and hence are not motivated to 'pretend' to follow parent strategies and in practice engage in network-based practices. Compliance with parent standards and procedures was highlighted as an important element of lobbying, especially in relation to corruption by most companies. This does not mean that there may not be cases when subsidiaries engage in non-compliant or even corrupt practices and would in that field consequently engage in ceremonial adaptations. However the scope of investigation in this study was limited to the design and management of political strategies and have not explored the issue of corruption, therefore this questions was not explored.

6. 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, 2013a), but reacting to the pressure of institutional duality, actively design a 'combined' strategy in emerging economies.

Evidence presented in this article illustrates that subsidiaries design their lobbying portfolio by integrating and adapting different elements of the home and host country resources

into arm's length and network-based lobbying capabilities, a combination of which they then turn into a unique localised lobbying strategy. 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 literatures on CPA, resource dependence and institutional duality, the study revealed how political capabilities are organized within the institutional duality context.

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 parent 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 here 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 local advantages.

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 localised strategy. 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. However the proposed framework can offer a starting point for empirical studies to test whether subsidiaries in other emerging market contexts would design their strategies similarly.

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