Populists in Power—the Impact on Interest Representation and Firm-level Nonmarket Strategies

Dorottya Sallai

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Abstract

This thematic chapter explores how collective interest representation structures and firm-level corporate nonmarket strategies are affected by exclusionary populists in power. Through the case study of Hungary, the chapter showcases how businesses adapt to the rise and consolidation of populism by shifting strategies from a conflictual style of bargaining when the populist leader takes office, to a quiet but engaged strategy as the regime consolidates its governing power. While collective interest groups adapt and keep the dialogue with the state open by narrowing their negotiating strategies to lower salience issues within the era of formal quiet politics, individual firms increasingly engage in informal quiet politics. The study explores how firms manage their nonmarket strategies through activities that either help them buffer the impact of the threatening external environment or engage in bridging strategies that support their aims to gain legitimacy in the eyes of the government and help them build partnership with the governing elite. The chapter's findings suggest that in a populist political context firms must negotiate and maintain a legitimate position in their nonmarket environment in order to survive and prosper, and explores how firms in different sectors adapt to populism differently, depending on their legitimacy. The chapter's empirical evidence illustrates how firms engage with public policy through a variety of bridging and buffering corporate political strategies in the space of formal and informal quiet politics.

Keywords

lobbying, nonmarket strategy, multinationals, populism, , informal, firms, authoritarian capitalism, Hungary

Introduction

This thematic chapter explores how collective representation structures and firm-level nonmarket strategies are affected by institutional pressures in a context where exclusionary populists are in power. Similar to how business lobbying varies across different varieties of capitalism (Sallai, 2013), the structure of the political economy shapes the ability of the business sector to exercise its power. Populist politics facilitates the questioning of the legitimacy of the business voice, especially when it can be contrasted with the 'will of the people' (Feldmann and Morgan, 2021) and hence in countries where exclusionary populists gain power, interest representation through traditional channels may become challenging not only for collective interests but also for domestic and multinational firms.

Yet, recent research has shown that despite the market uncertainty that populist incumbency initially generates, the negative impact on the business climate 'vanishes' after around two years in office, as businesses adjust their portfolio of investments according to the differentiated risks (de Sousa et al., 2020). Some argue that dealing with populists in power is not 'less appealing and rewarding for firms' interests than influencing conventional parties in government' (Sousa et al., 2020: 15). Hence business responded to the rise of populism by 'learning to fight' (Culpepper, 2021: 136) and instead of opting to leave the country where populist leaders consolidate their power, businesses show pragmatism and seem to adapt to the new institutional reality. What changes is the climate in which firms operate—as consolidated populism has a long-term impact on a 'country's institutional structure by altering the 'rules of the game' (Devinney and Hartwell, 2020 36)—and the methods firms have to use to remain successful in market and nonmarket contexts.

Still, we know very little about what happens to structures of interest representation when populists gain power and how the changes in the political context affect firm-level nonmarket strategies. This chapter will address this gap in the literature through a case study of Hungary under the Orbán regime in the period of 2010–2021. The chapter is structured as follows. First, I look at the theoretical debate around business power in political science and firm-level nonmarket strategies in management and international business. Then I detail the methods of this study and present the empirical findings. In the last section I discuss the emerging findings and conclude.

Theoretical background

While management scholars focus on the role of political capabilities and the different nonmarket strategies that firms rely on in an international context, political science scholars investigate how the influence of business or business power changes under the populist conditions of 'noisy politics' and 'quiet politics' (for a detailed account, see Chapter 1). When populist leaders gain power, they often 'personify' the will of the people, and the relationship between the leader and the followers becomes mediated by a perceived personal connection—through the media, social media, and direct democracy, notably referenda (Weyland, 2017) —rather than intermediary organizations. As such, populism does not rely on organized interest representation, since, once in power, the populist leader has a direct bond with their followers and can easily 'bypass any organizational intermediation' (Weyland, 2017: 59). In this sense, populism is 'averse to special weight' (Weyland, 2017: 59) such as business power or the economic clout of organized business interest groups, as populist leaders will try to affirm and demonstrate their independence from 'elite groupings' and often even 'bypass organized civil society' (Weyland, 2017: 59). Hence, we can assume that when populist leaders enter government, they will aim to reorganize structures of interest representation and social dialogue and create a new context for state-firm relations.

Nonmarket strategies in volatile institutional contexts

In today's networked economy, firm performance and managerial success increasingly depend on the nonmarket environment, which presents several risks as well as opportunities for business leaders. Managers implement nonmarket strategies when they communicate with the government or their local member of parliament (MP), interact with the media, engage in regulatory consultations, participate in coalitions and associations, serve on advisory committees, negotiate with interest groups, or consult with supranational bodies. The nonmarket environment encompasses all interactions with the 'public, stakeholders, government, the media, and public institutions' (Baron, 1995: 47). When firms engage in nonmarket strategies, they manage their relationships through corporate political activities (CPA) and corporate social responsibility (CSR) (Mellahi et al., 2016). While strategic CSR refers to corporate actions that appear to advance some social good that allows a firm to enhance organizational performance, CPA concerns activities to manage relations with political institutions and/or influence political actors in ways favourable to the firm (Hillman et al., 2004). In this chapter, I only discuss nonmarket strategies in the CPA field. In this section, I will explore how nonmarket strategies are affected by the rise of populism from the perspective of management and international business theories.

While expertise, membership in elite networks, and the unified voice of business associations generally gave business licence to affect public policy outcomes, the rejection of expertise in populist regimes decreases the value of traditional resources for political influence (Culpepper, 2021). This is not a surprise since the systemic changes in the institutional environment under populist leadership inevitably lead to changes in the country's governance system. While in a rule-based governance structure economic exchanges are based on formal rules, laws, and government regulations, in a relationship-based one economic transactions are privately ordered through informal relationships and norms of reciprocity (Judge, 2012; Chen and Deakin, 2015). As national economies globalize, they increasingly evolve into rules-based governance systems (Judge, 2012), but this trend might be disrupted by populism. When populist leaders gain power, the institutional environment may shift back from a rule-governed form towards a more relationship-based style of governance. While in rule-based systems CPA involves mostly professionalized, transactional, issue-driven activities based on transparent exchanges, in relationship-based systems CPA is dominated by informal personal contacts between politicians, public officials, and managers, which inevitably triggers a change in the value of the different political resources and capabilities that companies use in their corporate nonmarket strategies (Schnyder and Sallai, 2020).

Previous research has shown that democratic backsliding and the shift towards authoritarian capitalism can also trigger a change in the nature of political risk. During the phases of 'institutional backsliding' state intervention becomes arbitrary and hence creates situations of 'discontinuous risk' (Sallai and Schnyder, 2021). One way for firms to manage high political risk is to become legitimate in the eyes of the government or in the case of multinationals in the eyes of the host government. Multinational firms become legitimate in a country if their activities are in line with the values of the country they are operating in, such as the government's economic, political and social goals (Bodewyn and Brewer, 1994; Henisz and Zelner, 2005). Governments may be tempted to alter policies and introduce legislation to their political advantage and to the detriment of some foreign firms (Stevens et al., 2016) or different industries. This is especially prevalent in countries where populist leaders are close to power and economic protectionism and anti-trade rhetoric can win elections, as in the case of the 2016 presidential elections in the US or the Brexit vote in the UK (Curran and Eckhardt, 2021). The legitimacy of foreign firms from the perspective of host governments, will depend on their contributions to national goals such as employment or technological investment (Stevens et al., 2016). When there is a congruence between the government's goals and the activities of the foreign business the legitimacy of the subsidiary increases in the eyes of the government (Kostova and Zaheer, 1999). However, if they are not serving the government's purposes, they can easily become targets of hostile legislative changes (Sallai and Schnyder, 2015). Political interference in multinational enterprises (MNEs)' operations may also trigger a negative impact on the government's own goals, such as economic growth generated as a result of inward foreign direct investment (FDI) (Luo, 2001). This is why industrial policies aimed at capital investment that contribute to national growth are rarely if ever discussed within the domain of noisy electoral politics (Regan and Bohle, 2021).

On the other hand, the political risk perceived by MNEs depends on whether their business objectives are consistent with the government's long-term agendas (Stevens et al., 2016). Consequently, companies, whose activities are aligned with the government's long-term goals may perceive a lower degree of political risk compared to those whose activities are not aligned (Henisz and Zelner, 2005). Subsidiaries can gain legitimacy by making government officials view their presence as necessary for the government's objectives. Creating new workplaces, hiring local workers to reduce unemployment, or investing in local infrastructure could be ways in which a subsidiary supports the government's long-term goals. Governments evaluate the degree to which foreign subsidiaries' presence and actions are legitimate or not based on these actions (Marquis and Qian, 2014) and the judgements about companies' legitimacy could have serious consequences for a subsidiary's survival in the host country context (Bitektine, 2011). If a government views a firm or a certain group of firms as legitimate, it could signal its support by providing resources, favourable policies, or tax incentives to these selected firms (Oliver and Holzinger, 2008), whereas if it views a firm as illegitimate it could introduce unexpected policy changes, new regulations, or taxes that may create disruption in the firm's sector or industry. Besides their market decisions, a firm's political behaviour can also be a source of legitimacy. First, when faced with high political risk, firms either exit (Hirschman, 1970) or do not even enter the host market (Meyer et al., 2009). However, if they decide to enter or stay, they have to manage their relationships with the government.

In order to manage their external environments, firms engage with social and political stakeholders through 'buffering' or 'bridging' strategies. Buffering refers to situations when firms try to protect themselves from the external environment by buffering the organization against the threat or negative impact of political ties in highly volatile emerging market contexts, for instance, where the power of politicians is not sufficiently constrained by legal frameworks and firms may be harmed by the 'grabbing hand' of the state (Dieleman and Boddewyn, 2012: 74). Through buffering firms may rearrange their organizational structure to 'segregate, isolate, hide and cut off political ties and eliminate pressures' (Dieleman and Boddewyn 2012: 74). On the other hand, firms engage in bridging strategies when instead of shielding from the external environment, they try to adapt to the expectations by meeting or even exceeding regulatory requirements in their external environment (Meznar and Nigh, 1995). Bridging refers to different activities around connecting an organization to other ones through joint ventures, mergers, bargaining, contracts, and government connections. Thus, companies that rely on political actors to remain competitive, try to 'couple' their ties with them through bridging activities (Dieleman and Boddewyn, 2012).

Besides manipulating their external relations and political ties with the political environment firms may also engage in bargaining behaviour to influence their nonmarket environment. In a conflictual context both the government and firms try to appropriate rents or gains from each other. Conflictual bargaining posits that governments will try to make gains from firms, whereas firms will try to mitigate these governmental gains or try to make gains at the expense of governments (Stevens et al., 2016). In contrast, the partnership type of bargaining behaviour is a more positive view of business-government interactions as it is more likely to generate legitimacy. Partnering conveys a positive message and viewed almost like an approval of what international firms are doing (Boddewyn and Brewer, 1994). Political partnership between the government and firms prevails if both parties perceive the situation as a positive-sum game. Consequently, firms must negotiate and maintain a stable and legitimate position in their nonmarket environment in order to survive and prosper in a positive-sum game and also to secure competitive advantages against other actors in the market (Boddewyn and Brewer, 1994).

Some studies claim that when operating in high-risk contexts, international firms will choose and deploy a non-engaged approach to CPA, whereby they exercise loyalty to the host market by staying, but not engaging actively in political strategies (De Villa et al., 2018). In contrast to the engaged approach to CPA, according to which firms manage their nonmarket activities through information, financial incentive, and constituency building strategies (Hillman and Hitt, 1999), the nonengaged approach refers to a situation when firms actively adapt to their environment through different actions but do not aim to influence the political environment. The four nonengaged strategies are: low visibility, where firms operate 'under the radar'; rapid compliance, which refers to actions to obey the rules; reconfiguration, when MNEs rearrange their organizational structure; and anticipation, where firms monitor public policy and analyse interest groups to anticipate responses (De Villa et al., 2018). However, we do not know what happens if firms decide to stay in a high-risk context and also decide to engage in CPA, especially when exclusionary populists are in power. Do they adapt their nonmarket strategies using the tools of conflictual or partnership-type political bargaining? Do they decide to actively engage with political ties through bridging and buffering techniques? If they decide to engage do firms engage in CPA through quiet or noisy politics? And if populism fragments collective business interests in the arena of noisy politics will businesses and collective interest organizations move into the space of quiet politics? In order to answer these questions, we need to make a link between the political science debate around business power and lobbying and the management literature on nonmarket strategies and CPA.

When firms face populism in power—even if this power is consolidated and firms get used to the risk and decide to stay on the market—their capacity to act cohesively and through collective action in noisy politics decreases (see Chapter 12, this volume). For some individual firms this shift and the associated national economic policy objectives of populist governance may open up lobbying opportunities within the space of quiet politics (Bohle and Regan, 2021), long-term, consolidated populism in power is likely lead to substantial changes in the nonmarket environment. Consequently, besides looking at how collective interests are impacted when populists are in power, we also need to explore how individual businesses achieve their political goals and how they compete with each other in the quest for access to political decision-making. We need to explore in more detail what happens within the space of quiet politics and more specifically what nonmarket strategies businesses use when populists are in power.

Now we turn our attention to how interest representation and firm-level corporate nonmarket strategies are affected when exclusionary populists gain power. The next sections explore this question in the context of Hungary.

The case

The case study focuses on Hungary as a high-risk political context in the period 2010–2021. Hungary is one of the most suitable cases for studying the impact of consolidated populism in power, not only because Viktor Orbán's Conservative Party *Fidesz* has been in power since it acquired a two-thirds majority in parliament in 2010, but also because it provides a rich laboratory to explore how state-firm relations changed during the transition from a relatively stable democracy before 2010 to an ‘authoritarian capitalist’ system by 2020 (Sallai and Schnyder, 2021).

The chapter is based on empirical research on state-firm relations in Hungary since 2010. The findings draw on an interview-based qualitative research design combined with research on the political context using secondary data. The data used in this chapter includes 59 semi-structured interviews out of which 45 were with business leaders working at MNE subsidiaries and domestic firms and a further 14 with experts on this case. Hungary was selected as a revelatory case, because it is arguably one of the best cases to study how a consolidated populist regime affects state-firm relations and companies’ nonmarket strategies in a member state of the EU.

Changes in social dialogue

After coming to power in 2010, the Orbán cabinet started to ‘disorganize’ civil society. Despite the populist rhetoric of representing the interest of ‘the people’, the three consecutive cabinets of Fidesz-KDNP (2010–2014, 2014–1018, and 2018–till today) drastically changed the pre-2010 corporatist structures and weakened collective bargaining. In May 2011 the government announced its plans to restructure the entire system of social dialogue. Prime Minister Viktor Orbán argued that by giving a two-thirds majority to the government, the ‘people’ had delegated all its representational authority to the government. In his speech he said ‘we not only represent voters in general, we represent employees and employers as well, they all voted for us’ (Bednarik, 2010). Before the institutional changes, the Interest Representation Council (IRC) discussed all major social issues, such as labour market issues, the minimum wage and recommended wage increases, tax reforms, and vocational training policies. Even though the Labour Code prescribed the IRC to negotiate with the government on all issues that concern labour, tax, and budgetary policies, in its first year in office the Orbán government passed all important legal changes without consulting with social partners (Bednarik, 2010).

After the abolition of the tripartite National Interest Reconciliation Forum in 2010, a two-tier social dialogue model was introduced by the Orbán government. It consists of an official body, the National Economic and Social Council (NESC), and an informal council, the Permanent Consultation Forum (PCF). The NESC includes representatives from many different areas of society, but it operates without any government presence. The PCF is based on a civil law contract, to which only selected organizations belong (Árendás and Hungler, 2020). The '*toothless*' NESC includes trade unions and employers, representatives of business chambers, civil society, and scientific institutions, well as Hungary's historical churches, academics, and representatives of the arts (Szabó, 2013: 210). In contrast to its predecessor, NESC does not have a tripartite structure as it does not include government representatives and only has an advisory and not a consultative function (Szabó, 2013). The government explained the changes with the inefficiency of the old system. In contrast to the IRC, the new body has no decision-making rights, only the option to draft proposals, which could be entirely ignored by the government. In effect, in the new system the government can unilaterally decide on wage and employment-related regulations without any consultations (Komiljovics, 2011). One of the respondents reflected on these changes in the following way: 'There is no formal, written, enforced forms of interest reconciliation today.'[2]

As social partners were excluded from the legislative process, unions competed with each other to get access to decision-makers and make their voice heard directly through informal channels:

[2] Director at multinational subsidiary interviewed by the author 06.09.2011.

> … we realised that we do not have enough tools now, there are no formal forums but we still have to negotiate…So we had to sit down informally with the government, with Viktor Orbán and managed to agree on some changes.[3]

Despite its initial aims of providing a forum to monitor socio-economic developments in Hungary, NESC had ‘few achievements’ since its foundation. Between 2010 and 2017 the council discussed overall only 36 proposals but has not reached any agreements’ (Árendás and Hungler, 2020: 55). The government does not consult the NESC about ’substantial topics’ such as the minimum wage as discussion about this as well as taxes and social contributions takes place at the Permanent Consultation Forum (PCF), and the NESC is only informed about the outcomes of these negotiations once they have been completed (Árendás and Hungler, 2020). The PCF was set up as a channel between the government and the invited trade union federations and employers’ associations. However, it does not operate as a ‘tripartite’ institution, since it is based on civil law and hence lacks the legal basis to operate as an official consultation forum (Árendás and Hungler, 2020: 57). Like the NESC, this forum’s membership is also ’by invitation only’, with membership offered only to certain selected trade unions and employer organizations, and some argue that the government uses the forum as a ‘facade to pretend there is social dialogue and to give the impression of maintaining a democratically functioning tripartite system’ (Árendás and Hungler, 2020: 57).

As this discussion shows, ten years of populist governance dismantled the previously transparent, formal, and organized corporatist structures and created a powerless, partly informal, and ‘by invitation-only’ system of collective bargaining. These changes had an

[3] Respondent at Trade Union interviewed by author 23.01.2012.

impact not only on how business dialogue is managed in Hungary but also on state-firm relations in general. The next section explores the government's dialogue with business.

Business interests and firm legitimacy within the pressures of the FDI-led growth model

In contrast to the first few years of the Orbán era when the business-government relationship was rather conflictual and communication between the government and business groups broke down, these relations were partially rebuilt as business groups and individual businesses adapted to the regime. After a period of transition business, learned to cope with the more informal and more particularistic form of state-firm relations and started to engage in collective mobilization through business associations, especially on policy issues that require expertise and are of low political salience.

Some business associations find the representation of sectoral interests more challenging under populism than before. As the government opened up selectively to individual businesses that support its growth-led economic agenda, putting pressure on the government on behalf of a given sector or lobbying against a disadvantageous sectoral legislation became more difficult as business interests were fragmented. Nevertheless, large domestic companies and MNEs continue to engage with industry associations and chambers of commerce although these activities remain mostly symbolic in low salience policy areas, as lobbying on important issues is shifting to a new form of quiet politics, where informal, firm-level lobbying becomes the norm. In contrast, smaller firms that are not connected to the governing regime and would rely mostly on collective mobilization through business associations and chambers of commerce, may be disadvantaged as populist governance is consolidated and business power through collective interest representation is marginalized.

The political shift towards exclusionary populism and authoritarianism has a direct impact on interest representation and business voice, leading to the gradual decline of corporatism, the marginalization of social dialogue and a shift towards particularistic state-firm relations in which direct, individual lobbying for businesses becomes unavoidable. In this new context it becomes crucial whether a firm is viewed as legitimate or not by the regime.

While Hungary was a front-runner in attracting FDI during the 1990s, since 2010 the government has engaged in aggressive political rhetoric against foreign capital and adopted unfavourable policies such as high taxes in many SMNE-dominated industries (Sass and Kalotay, 2012: 1). This state-level change of attitude towards FDI had a direct impact on multinational subsidiaries' political legitimacy in Hungary, and also on the level of political risk in different sectors. The political rhetoric has started to distinguish between 'good' and 'bad' FDI (Sass, 2017). 'Bad' FDI—mostly referring to service-related firms operating in banking, telecoms, retail or energy—was increasingly viewed as aiming to replace domestic producers or service providers and repatriating profits—therefore not being beneficial for the country's economy. Whereas FDI that resulted in creating new jobs, contributing to the country's export-led growth, while allowing domestic companies to get engaged in global value chains as suppliers, became increasingly viewed by the Orbán government as 'good' FDI (Sass, 2017).

Research shows that since 2010, the three consecutive Orbán governments consistently supported export-oriented industries or 'good' FDI, such as car manufacturing, electronics production and shared service centres (Sass, 2017) and provided them with generous incentives. Incentives included smaller corporate tax rates, low labour costs, and other subsidies, in some cases worth up to 50% of investment (Byrne, 2016). Szanyi's Chapter 7 in this volume details how 'friendly' multinational businesses have been supported by important changes in labour market regulations—infamously referred to as the 'slave laws'—as these increased the ability of employers to unilaterally set conditions of employment contracts, including the ones in collective bargaining (see Chapter 7).

At the same time, the Orbán governments have taken a hostile view on 'bad' FDI (Sass, 2017; Sass and Kalotay, 2012) by introducing special taxes and other regulatory measures, such as nationalizations, and targeted sectoral regulations in service-related sectors, leading to strong reorganizations of property in favour of the new oligarchic national capital (Gagyi and Gerocs, 2019).

According to the *Financial Times*, the contrasting experiences of foreign manufacturers compared with investors in service industries 'points to Hungary's drive to position itself as a low-cost manufacturing and logistics base in Germany's economic hinterland' (Byrne, 2016: 1). Although it has promoted anti-foreign rhetoric, the Orbán government seems to be partial in its anti-FDI stance and does not seek to fundamentally alter the country's 'export-led growth model' that depends on FDI (Bohle, 2018). Consequently, in the current political climate, gaining legitimacy vis-à-vis the governing elite is crucial for both domestic and multinational firms. As one of the respondents from a multinational subsidiary claimed: 'The relationship can be very positive as long as the companies represent the priorities of the state. If a company can bring investment into the country … if businesses bring more employment, or more Hungarian ownership …'.[4]

This type of 'selective economic nationalism' has helped the government to build strong relationships with multinational firms in manufacturing, while also forging new alliances with the domestic business sector by sponsoring a new oligarchy (Bohle and Regan, 2021), and creating domestic businesses that are more dependent on the government (Sallai and Schnyder, 2021; Scheiring, 2020). As a result of the FDI-led growth model and the parallel dismantling of the corporatist interest intermediation structures state-firm relationships shifted from a rule-based to a more relationship-based system, where firms must find new ways to create

[4] Respondent at multinational subsidiary interviewed by the author 09.08.2015.

legitimacy. As bargains take place behind closed doors between state-business elites, public officials are less likely to deal with national business associations and more likely to negotiate with executives within the global supply chains of multinational corporations, especially firms in 'good' FDI sectors (Bohle and Regan, 2021). However, we do not know much about how firms manage their nonmarket strategies in this informal space and what kinds of tools they use in their corporate political activities in this new era of 'quiet politics'.

Quiet and informal politics through partnership-type bargaining

The previous discussion shows that populism in power leads to changes in state-firm relations as the nonmarket environment becomes less formal and more high-risk, especially for those who operate in 'bad' FDI sectors. While earlier studies have suggested that individual firms from 'good' FDI sectors can engage well with the governing elite in the era of quiet politics (Regan and Bohle, 2021), interviews for this study suggest that interest groups, large domestic firms as well as multinationals in 'bad' FDI sectors also adapted to this new type of quiet politics in recent years. However, a distinction needs to be made between 'quiet politics' as discussed in the literature and the new type of quiet politics that is emerging in Hungary's authoritarian capitalism. While the term 'quiet politics' traditionally refers to lobbying that takes place behind closed doors through formal interest representation activities (see Chapter 1), in Hungary quiet politics is more strongly related to the authoritarian nature of the political system and includes both formal and informal corporate political activities. Therefore, this chapter differentiates between *formal* and *informal* quiet politics. Table 14.1 shows how bargaining and business power has changed in the different phases of populism in Hungary, from the early years of coming into power to the mature consolidated system after the Orbán regime won the elections the third time.

Table 14.1. Type of bargaining and business power in the different phases of populism

	Phase of populism		
	Coming into power 2010–2014	Consolidation 2014–2018	Mature consolidated system 2018–2021
Type of bargaining	Conflictual type of bargaining for both individual firms and collective interests	Shift towards less conflict and more partnership for both individual firms and collective interests. Organisations learn new ways of engaging	Partnership type bargaining for both individual firms and collective interests
Business power	Weakening of collective interests, weakening of individual firm power	Reconfiguration of power structures	*Some collective power* for informally selected collective interest representation bodies in low salience issues—*formal quiet politics* *No or very limited power* for collective interest groups in high salience issues—*noisy politics* *Limited power* for individual firms in *informal quiet politics* from '*bad' FDI* sectors *Strong power* for individual firms in *informal quiet politics* from '*good' FDI* sectors *Strong power* for large domestic firms in *informal quiet politics* that belong to the circle of oligarchs or have close ties to the governing elite

What is interesting is that there seems to be a transition in how organizations managed their bargaining with the state as the populist system consolidated around them, shifting from a more conflictual style of bargaining when Orbán came into power, especially in the first two to three years, to engaged partnership-style bargaining by 2021. Similarly, even though business power weakened in the early years for both collective interest groups and individual firms, after a few years of reconfiguration business learned how to play the new game, and both collective organisations and most individual firms adapted their nonmarket strategies to engage at least in some ways in a *new form of quiet politics*. The area of quiet politics has also broadened with a larger space being dedicated to informal bargaining and a smaller space sustained for *traditional formal quiet politics* that is open to selected interest groups (depending on whether they support the government's industrial agenda).

The findings also suggest that firms need to extend their traditional nonmarket strategies and CPA methods in Hungary with practices that open the door directly to decision-makers, increase their legitimacy vis-a-vis the government and substantiate their 'loyalty' towards the government's strategic objectives or the governing elite in general. Although there are other types of political strategies (see the detailed discussion of lobbying capabilities in Hungary in Schnyder and Sallai, 2020 and of subsidiaries' lobbying strategies in Sallai, 2020), this discussion focuses only on a few CPA techniques that this study identified in the era of quiet politics. Some of them can be classified as bridging strategies as they help to make links with the political environment, while others are buffering strategies that help companies protect themselves or their interests against state appropriation. Bridging strategies include strategic partnership agreements (SPAs), lobbying through well-connected domestic PA consultancies, direct lobbying through the firm's chief executive officer (CEO), or in the case of MNEs, the CEO of the subsidiary/parent company, or lobbying through ambassadors.

Strategic Partnership Agreements

In 2012 the government introduced the so-called 'Strategic Partnership Agreements' (SPA), which are signed by the government and individual firms. By 2020 the government had signed agreements with 86 companies (Németh, 2020), including multinational and domestic firms from a wide range of sectors. Transparency International in Hungary described SPAs as 'specific policy measures in a business environment where in addition to traditional market risks there are also tangible and unpredictable political risks' (Bartha, 2014). The aim of these contracts is to increase investment in Hungary and to provide new jobs (Bartha, 2014). However, it is not clear how firms are selected for these partnerships—which organizations can conclude an agreement with the government and on what basis (Bartha, 2014). Such contracts contain a short description of the firm, its background in Hungary, its contributions to the economy, and they list the areas of collaboration which include in most cases engagement in capacity building, innovation, creation of employment opportunities, vocational training, a commitment to relying on Hungarian suppliers, and to engaging in joint projects with the state, although these projects are not detailed in most contracts.

The agreements are negotiated through informal channels, and no information about the process is available. Interviews suggest that the agreements are based on individual deals with companies about collaboration or future investment opportunities. Some argue that the agreements only pave the way for access to decision-making and information—especially for firms in service-related sectors-, while others claim that there may be some link between the partnerships and government support for foreign direct investment:

> When we made the strategic agreement, we went to them and said that we have a common interest, to attract EU funds, finding this common ground was essential.[5]
>
> The strategic cooperation agreement is like an interest ticket. If you do not have one of those, then you are looked at suspiciously by anyone in the public sector

[5] Respondent at multinational subsidiary interviewed by the author 15.08.2016.

…. Having one does not really buy you much, it does not confer any advantage, but not having one is sort of a question.[6]

We demonstrate [through the SPA] that it is good to work with us, we have common goals …. We try to make projects that have a win-win impact.[7]

These partnership agreements do not guarantee any advantages, the only advantage maybe is to get access to decision-making easier.[8]

Although views differ on the advantages, the majority of respondents agreed that the SPAs have some benefits at least in showing loyalty and partnership to the government. Some argued that in recent years so many companies have signed partnership agreements that their value has already diminished, but it still seems to be considered as an important tool in both domestic and multinational firms' corporate political strategy.

Firms also use more traditional but still quiet CPA methods to build partnerships and legitimacy with the governing elite. Interviewees highlighted the use of external PA consultancies that have strong political ties with the government to get access to high level government officials; direct lobbying with high-level decision-makers through the firm's CEO or the CEO of the mother companies in the case of multinationals; as well as direct engagement through the parent company's ambassadors. 'They [PA consultancy] help to organize meetings

[6] Respondent at multinational subsidiary interviewed by the author 15.08.2016.

[7] Respondent at multinational subsidiary interviewed by the author 15.07.2016.

[8] Respondent at multinational subsidiary interviewed by the author 09.08.2015.

with a state secretary or a deputy and also to get background information or forecast reports. They are the door openers …'.[9]

'Some ambassadors are very powerful. … ambassadors are a good way [of lobbying] ….'[10]

Beyond the previously mentioned bridging strategies, firms also use buffering strategies that are designed to protect them from the external environment if it becomes too threatening. These include contracts with government-related suppliers, paying tax relief to selected sports clubs, or restructuring.

Contracting government-related suppliers

Interviews suggest that some companies build legitimacy through a partnership technique that focuses on contracting suppliers that are 'recommended' by the government through intermediaries in their supply chains. Although the commitment towards the use of Hungarian suppliers in general is also mentioned in the Strategic Partnership Agreements, respondents referred to the more specific informal requirement to use firms that are linked through their ownership to a very narrow group of the governing elite. Doing business through government-related suppliers or oligarchs and their firms shows 'commitment' to the regime. As one of the respondents from a multinational subsidiary highlighted: 'The other issue where the state is dominant is the appearance of the state-preferred suppliers in the system. Companies try to work together with these suppliers based on their [the company's] own values or against those.'[11]

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[9] Respondent at multinational subsidiary interviewed by author 16.08.2016.

[10] Respondent at multinational subsidiary interviewed by author 16.08.2016.

[11] Respondent at multinational subsidiary interviewed by the author 15.08.2016.

Even though the use of government-related suppliers might be prevalent only in some sectors, this political strategy may help firms to engage in partnership-type bargaining, since the use of suppliers reflects their commitment to the regime and gives them legitimacy to contact decision-makers directly, when public policy issues arise.

The corporate income tax relief is a tax incentive under the law on corporate income tax (TAO). The tax allowance was introduced in 2011 mainly to provide support for team sports such as ice hockey, handball, basketball, football, waterpolo, and volleyball. By supporting sports clubs, companies can reduce their corporate income tax payments if they pay the clubs from their pre-tax profits rather than their net taxed profits (Ligeti et al., 2019). Transparency International claims that the fact that donors are not published encourages companies to ‘give way to political considerations when making TAO payment decisions’ as ‘they are better off giving their TAO to sports teams with good political connections’ (2019:15). By providing their TAO payments to sports teams with close political connections, firms show their ‘loyalty’ to the political regime. Hence, it is not a surprise that according to data published by investigatory journalists, the prime minister’s favourite sport football received 40% of all TAO funds by 2020 (Bita and Pető, 2021. Furthermore, by 2021, out of all the funding for football, the Youth Training in Felcsút Foundation—founded by Prime Minister Viktor Orbán and chaired by Lőrinc Mészáros, the prime minister’s childhood friend and one of the richest oligarchs since 2010—received TAO funds of some 35 billion forints (Zoltán, 2021). The watchdog Atlatszo.hu reported that between 2011–2016 most of the funding for football originated from domestic firms, state-owned enterprises, and multinational companies (Erdélyi, 2018). The largest domestic contributions were made by Fidesz-related oligarchs and companies that have been large beneficiaries of public procurement tenders and state-owned businesses such as MOL and its subsidiaries (Erdélyi, 2018), while a smaller number of multinational firms from a variety of sectors also contributed. TAO payments may be considered as a buffering strategy since contributions to the most politically relevant club is perceived as an expectation from the government's side. If the list included a more diverse group of organizations or causes, firms might feel that they have a choice, whereas in the current system paying the right organizations feels more like giving in to 'blackmail' rather than voluntary philanthropy according to some respondents.

The third buffering strategy found in this study may be called 'restructuring'. This method resonates with De Villa et al.'s 'reconfiguration' strategy (2018) or Dieleman and Boddewyn's 'buffering' strategy (2012) according to which firms initiate second-order changes within their organizational structure to maintain competitiveness (De Villa et al., 2018) or to circumvent the regime's influence (Dieleman and Doddewyn, 2012) on their activities. In Hungary restructuring helps firms in less legitimate 'bad-FDI' industries or industries under severe government intervention to modify, split up or rearrange the ownership of their subsidiary in order to 'save' the other parts of the firm. Companies that follow this approach divide or plan to divide their operations into different business units, creating smaller sub-subsidiaries in fields where government appropriation is considered most likely. Some subsidiaries have concrete contingency plans for 'restructuring'. Some respondents claimed that due to their large investment in Hungary they ruled out the 'exit' option. Some of these companies introduced a restructuring plan that they plan to implement in case the government initiates drastic interventions in their sector.

> This is called functional separation in my business, utility companies have done this for a while. … That kind of structure could be something that could make

it easier for us to adapt if the environment became really nasty. We have not decided to do that, it is one of the things we look at from time to time.[12]

This discussion shows that firms use various non-traditional CPA methods to address consolidated populism within the context of authoritarian capitalism. Table 14.2 illustrates whether the different engagement methods are used by firms to buffer or to bridge the impact of the external environment and whether they may include a direct or indirect monetary 'contribution' as an expression of loyalty to the populist regime or whether they are symbolic in nature, see able 14.2.

Table 14.2. Quiet CPA activities in relation to buffering and bridging strategies and monetary contributions.

Quiet politics through CPA activities	**Buffering strategy**	**Bridging strategy**	**May include monetary contribution through links to the governing elite**	**Symbolic does not include monetary contribution directly to the governing elite**
Strategic Partnership Agreements		X		x
Contracting government-preferred suppliers	x		x	
Paying tax relief (TAO) to government-favoured sports	x		x	
Use of PA consultancies with good government ties		X		x
Restructuring	x			x
Direct lobbying through CEO or subsidiary/HQ CEO at MNEs		X		x
Ambassadors		X		x

[12] Respondent at multinational subsidiary interviewed by the author 16.08.2015.

While different MNE subsidiaries may use any of these CPA methods, domestic firms were found to rely mostly on direct lobbying through CEOs, SPAs, and TAO payments. The table shows that firms mostly use the bridging strategies of CPA to develop a relationship based on partnership- bargaining and only resort to buffering strategies when they feel threatened or forced to do so by the authoritarian regime. However, both buffering and bridging strategies may include methods that come with a direct or indirect monetary contribution. In this sense restructuring as defined here is an exception since it does not include monetary contributions, although it may be very costly for firms. Findings also show some variation between the strategies of firms in different sectors. Those in service-related ‘bad’ FDI sectors that have lower legitimacy from the government’s perspective, perceive greater political risk and were found to engage more actively and rely on a wider range of bridging and buffering techniques than firms in ‘good’ FDI sectors, see Table 14.3.

Table 14.3. Legitimacy and quiet CPA engagement of firms in ‘bad’ and ‘good’ FDI sectors.

Firms from ‘bad’ FDI sectors	Firms from ‘good’ FDI sectors
Low legitimacy	High legitimacy
Less power in quiet politics	More power in quiet politics
More perceived political risk	Less perceived political risk
More diverse engagement in quiet CPA	Less diverse engagement in quiet CPA

This discussion has shown that during the consolidated phase of populism—when earlier and more transparent formal channels of interest representation were weakened and lobbying shifted into the space of informal governance—both domestic and multinational firms adapted to the new nonmarket requirements and learned how to engage in lobbying with the government.

These findings do not imply that firms adopting these strategies support the political regime—although some do—or that all firms benefit from the regime's industrial strategy, Many are clearly disadvantaged by it, but our discussion shows that firms from different sectors and different ownership backgrounds have acknowledged the consolidation of the exclusionary populist regime and found new ways to adapt their nonmarket strategies to this context. Whether this adaptation also leads to lobbying success and the achievement of political goals is a different question that future research needs to address.

Discussion and conclusion

The progression of exclusionary populism from the early stages to a consolidated and mature authoritarian capitalist regime may have a long-term impact on a country's interest representation structures and firms' nonmarket strategies. The case study of Hungary has shown that businesses adapt to these changes by adjusting their strategies from a conflictual style of bargaining when populists gain power to a *quiet but engaged strategy* once the regime consolidates its power.

While collective interest groups adapt and maintain dialogue with the state by narrowing their negotiating strategies to lower salience issues within of the sphere of *formal quiet politics*, individual firms also engage in *informal quiet politics. They adopt* various corporate political strategies to buffer the impact of the threatening external environment, to gain legitimacy in the eyes of the government and to build a partnership with the governing elite by engaging in bridging strategies. These findings support the claims of earlier studies that firms must negotiate and maintain a legitimate position in their nonmarket environment to survive and prosper in a positive-sum game (Boddewyn and Brewer, 1994). Extending the findings of earlier studies (De Villa et al., 2018), I found that when MNEs perceive high host country political risk, especially in the context of authoritarian capitalism, they engage with public policy through a variety of bridging and buffering CPA strategies using both *formal and informal quiet politics*.

Moreover, this study found that firms in different sectors adapt to populism differently, depending on their perceived legitimacy. Extending the argument of Bohle and Regan (2021) that firms in legitimate or 'good' FDI sectors increasingly engage in quiet politics, this chapter argues that firms in sectors with lower legitimacy ('bad' FDI) engage even more with quiet CPA to offset negative perceptions and to signal loyalty to the state than the firms supported by the state as part of its FDI-led growth model. By contrast, those in legitimate, good-FDI sectors get better access to engage in direct lobbying have less of a need to engage in bridging and buffering strategies.

The findings of this study cannot be generalized, because Hungary's weak institutional context may have contributed to its authoritarian shift, and exclusionary populism in this country may have a more extreme impact on business lobbying than in other countries where populists are in power. Nevertheless, the case illustrates the long-term impact of populism on interest representation and firms' nonmarket behaviour. Future research could build on these findings and investigate how successful businesses are in achieving their goals in this type of environment, and also assess any variation in lobbying success across different types of firms. The spread of economic and financial nationalism coupled with the rise of populism in many countries presents firms with similar challenges all over the world. The political risk of populism is particularly imminent since the outbreak of the Covid-19 pandemic. As the Economist reported, 'autocrats and would-be autocrats see opportunity in disaster' and will 'grab power at the expense of the people they govern' (Economist, 2020: 8). Since 2020, many governments in democratic and less democratic countries have started to grab power by enacting emergency legislation. Some ruling parties may 'abuse the pandemic as a pretext to further centralize power, potentially leading to increased oppression of political opponents, media and civil society' (Maerz et al., 2020: 910). Governments introduced ongoing emergency measures without any official time limit in twenty-two countries around the world—including democracies and autocracies (Maerz et al., 2020). In light of these developments, businesses face increasingly disruptive and uncertain political and market conditions. Future work could analyse similarities between firm strategies in Hungary and other countries where populist leaders are in power. Nevertheless, as this chapter has shown, interest groups and business are generally agile and adapt to populists in government by adjusting their nonmarket strategies to the new challenges. How the adaptation of business lobbying to exclusionary populist governance affects society at large is a question that future research should address.

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