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Holding back the damage: strong political institutions and the effect of populism on business investment

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Abstract
Populism is a political phenomenon that attempts to harness existing institutions for populist ends, often leading to negative consequences for businesses. However, can national institutions resist this pressure and mitigate the damage to firms? This paper investigates how populist electoral success influences corporate investment, unraveling the intricate connection between a country's political institutions and the investment behavior of companies. Through the lens of political uncertainty and transaction cost economics, we theorize that countries with fortified checks and balances—facilitated by electoral systems (situated at the entrance to power), judicial independence (supervising the exercise of power), and government accountability (serving as ex-post checks)—effectively mitigate populist impulses. However, these checks and balances are also often targeted by populist leaders, as they prevent full implementation of a populist agenda. Analyzing a dataset spanning over 36,000 firms across 42 countries from 1995 to 2021, we find that existing checks and balances shield firms from populist excesses. In line with our theory, the longer a ruler is in power, the weaker these checks and balances remain. Our study highlights populism's harm to business and the role of robust political institutions as mitigating factors.

Keywords Corporate investment · Populist ideology · Political uncertainty · Country-level institutions

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Introduction

The study of the political phenomenon of populism, including its causes and consequences, has attracted significant attention across various academic disciplines (Colantone & Stanig, 2018; Dornbusch & Edwards, 1991; Norris & Inglehart, 2019). This large body of research has only recently begun to make inroads within international business scholarship, where the study of populism has been mainly limited to the latest wave of populist electoral success following the global financial crisis of 2007–2009. While populism has traditionally been associated with countries featuring relatively weak institutional frameworks (Dornbusch & Edwards, 1991), this new and ongoing wave has encompassed both developing countries and mature democracies with relatively stable economies, making the study of this political disruption essential for understanding international business in a changing global context.

The recent wave of populism has made its effects on international business clearer. As Devinney and Hartwell (2020) noted, populism is a unique source of political pressure influencing corporate decision-making, introducing a unique form of institutional uncertainty (Hartwell, 2018): for example, the rise of populist rulers globally has prompted firms to reassess investment strategies (Carballo & Corina, 2024), and internationalization decisions (Alcaraz et al., 2024), while populist electoral successes have shifted focus away from broad-based corporate social responsibility (Hartwell & Devinney, 2023).

Populist electoral success may have a deeper impact on business than mere changes in policies or rhetoric however, as populist rulers have longer-term plans to undermine, alter, or co-opt restrictive institutions of political power, in particular checks and balances (Hartwell & Devinney, 2021). This can create long-term uncertainty for businesses, both domestic and foreign. In addition to disrupting established institutions that provide certainty to business decisions, populist leaders often also attempt to transform liberal and/or democratic institutions into tools of repression, illiberalism, or corruption (Hartwell & Devinney, 2021), thereby increasing uncertainty and transaction costs (Bennett, Boudreaux, & Nikolaev, 2023). As the political environment of international business becomes increasingly complex and politicized (Saittakari et al., 2023), the presence of populist rulers adds a new layer of complexity.

However, can "strong" national political institutions resist this pressure and thereby mitigate any possible damage for business? Theoretically, three specific institutions, one situated at the entrance to power (electoral system), one overseeing the exercise of power (judicial independence), and one acting as an ex-post check (accountability), could have a great impact in restraining populist impulses and thereby reducing the transaction costs for firms under populism. The success of these checks and balances as a constraint to populist excesses can be seen precisely in the reality that these institutions are among the first targeted by populist leaders.

This article examines how the rise of populist governments can influence corporate investment and how political institutions can mitigate this impact. Our study is framed in the literature on how political uncertainty affects international business. We focus specifically on formal institutions, conceptualizing them as the written, codified, and visible rules of the game (Dau et al., 2022; North, 1990; Williamson, 1985). We underscore the distinctiveness of populism as a unique source of political uncertainty for companies, setting it apart from previously studied political pressures in the international business literature. Using this framework, we analyze a crucial moderator of the effect of populist policies on business, namely how these formal political institutions (focusing on checks and balances) can resist the increase in costs and uncertainty that accompanies populism.

The novelty of this work is the linking of populism, and the constraints imposed by political institutions to investment decision-making at the firm level. In our pursuit of this objective, we extend transaction cost theory to include the distinctive role of populist rulers, empirically validating our hypotheses using a database encompassing over 36,000 firms and 332,000 observations across 42 countries from 1995 to 2021. We observe that the negative effect of populist rulers on corporate investment is mitigated under specific institutional arrangements, specifically where the electoral system follows a proportional formula, the highest court in the country is independent, and where government accountability is high. Interestingly, we find that the location of the institution with regard to its ability to influence the political system makes a crucial difference in helping to resist the negative effects of populism on investment.

Our study contributes to the existing literature on political uncertainty and international business by examining how the ability of political institutions to resist populist pressure is weakened by extended exposure to populist leadership. This erosion of the effectiveness of checks and balances, in turn, also influences corporate investment decisions.

The rest of the paper proceeds as follows: the next section contains our theoretical basis, relating populism, checks and balances, and transaction costs to create a theory of political institutions under populist leaders. Section 3 outlines our identification strategy for examining these linkages, while Section 4 presents our findings and Section 5 offers a discussion of the implications of these results.

Theory and hypotheses

Populism and the increase in transaction costs

Populism can be characterized as a political style that emphasizes a Manichean struggle between the will of the people and a conspiring elite (Hawkins & Kaltwasser, 2019; Mudde, 2004). This perspective, termed the "ideational perspective," has been described similarly in various works, spanning both economics and international business (e.g., Bennett et al., 2023; Funke et al., 2023; Guriev & Papaioannou, 2022), showing a rare consensus on the workings of populism. However, populism constitutes a "thin-centered ideology" (Mudde, 2004), encompassing diverse personalities and political orientations (Guriev & Papaioannou, 2022), rather than constituting a formal system of abstract thought (Norris, 2020).

The idea of populism, as a distinct form of politics, emerged in the United States in the 1890s and took hold in Latin America in the 1920s and 1930s. The literature of both political science and economics has grappled with the definition of populism (Dornbusch & Edwards, 1991; Mudde, 2004), its manifestations (Kaltwasser, 2014), its drivers (Margalit, 2019; Rodrik, 2021), and how it differs from other forms of political discourse or strategy (Rueda, 2021; Salmela & van Scheve, 2018).

Within international business, Rodrik (2018) and Devinney and Hartwell (2020) were the first to forge a bridge from this literature, illuminating how populist leaders could influence a country's business environment and impact firms. In the first instance, populist governments often exhibit unpredictable behavior, characterized by the adoption of unorthodox economic and trade policies, thus introducing a heightened level of uncertainty, and imposing increased transaction costs on companies (Bennett et al., 2023). Additional work in this vein has proliferated (Blake et al., 2024; Carballo & Corina, 2024; Hartwell & Devinney, 2023). Conceptual clarifications on the different "varieties of populism" (Devinney & Hartwell, 2020) have also helped to refine the possible effects on business from the different gradations of populist thought. A consensus (and empirical evidence) has coalesced that rulers with a populist ideological orientation have the potential to affect corporate operations and, in particular, corporate investment (Carballo & Corina, 2024; Devinney & Hartwell, 2020; Guriev & Papaioannou, 2022; Hartwell & Devinney, 2021).

The channel via which corporate investment may be influenced comes back to the populist approach of polarizing society into two antagonistic groups, where the establishment is identified as a powerful and corrupt force representing a self-serving elite that betrays public trust and opposes the popular will, which is embodied by the populist leader (Mudde, 2004; Norris, 2020). To overcome the entrenched elite, populist leaders target the existing institutional structures that enabled the rise of the previous elite (Hartwell & Devinney, 2021) thereby generating institutional instability (in the manner that Hartwell (2018) describes), meaning an increase in massive uncertainty and creating ambiguity about the precise nature of the institutional changes. As an example, from recent history, the Polish "Law and Justice" party (PiS, in its Polish acronym) successfully altered the Constitutional Tribunal after 2015, changing it from an institution meant to oversee the legislative actions of the government to one which was meant to ease the passage of transformative legislation for PiS (Matczak, 2018). Similarly, Mexico's MORENA party introduced constitutional changes in 2024 that completely restructured the Judicial Branch, making the selection of Supreme Court justices, Electoral Tribunal magistrates, and district judges subject to popular vote.

Such a radical transformation, especially in a short period of time, also changes the purpose of specific institutions within a country's institutional matrix. Indeed, the most destabilizing impact of populism on firms stems from efforts by populist rulers to undermine, disrupt, or co-opt constraining political institutions, such as checks and balances. North (1989) notes that political institutions—institutions concerned with the distribution of political power and its functioning (Hartwell, 2013)—arise precisely to help facilitate complex forms of exchange while raising the costs of arrangements that would allow powerful interests to dominate. In relation to firms, democratic political institutions positively impact corporate investment by mitigating uncertainty, restraining arbitrary executive behavior, and blocking rulers' overreach. Populists that succeed in changing established institutions that have traditionally provided certainty for business decision-making and long-term investment would then turn these institutions into transmission belts for uncertainty; such an approach would have a deleterious effect on corporate investment (as we will show below).

Within most countries with populist leaders, the institutions first targeted are then those that offer such checks and balances, with an eye on promoting both centralization of power in the hands of the populist party and reducing the costs to subsequent policy "innovations." The idea of checks and balances, with a long pedigree in political science dating back to John Locke and Montesquieu, ensures equitable power distribution, protecting citizens' rights. American political theory adopted these principles, establishing a stable system of institutions for collective decision-making and rules governing their interactions. American political theory adopted these principles, establishing a stable system of institutions for collective decision-making and rules governing their interactions (Almond, 1956). These "rules of the games" encompass a set of institutions that can constrain or exacerbate the political power of rulers and, therefore, be a relevant barrier against the uncertainty that can accompany extreme ideologies (Amore & Corina, 2021). Indeed, populist rulers frequently employ rhetoric that attempts to rally opposition to these institutions, slowing their functioning if not outright usurping their authority (Guriev & Papaioannou, 2022).

The effect on firms of this political disruption would become evident if the populist leader succeeds. It is plausible to assume that firms operate under bounded rationality and exhibit opportunistic behavior (North, 1990; Simon, 1979; Williamson, 1985). Bounded rationality is a semi-strong form of rationality in which actors are assumed to be intendedly rational, but only to a limited extent, since they have limited access to information and a limited ability to process the information (Conlisk, 1996; March, 1978; Simon, 1979). Similarly, the existence of opportunistic behavior of the agents that participate in the environment understood as "self-interest-seeking behavior with guile" (Williamson, 1985, p. 30), can impact the corporate decision-making process (Kogut & Zander, 1993; Madhok, 2006; Verbeke, 2003). As populist rulers introduce uncertainty and ambiguity regarding the possible reshaping of the institutional framework, agents intensify their opportunistic behavior, increasing the likelihood of not fulfilling contracts or commitments, and raising transaction costs for suppliers and consumers.

In the context of a populist disruption: (i) firms would have even more limited access to available information about the changing environment, further complicating their already restricted capacity to process such information;

and (ii) increased institutional volatility is likely to stimulate heightened opportunistic behavior among agents. For business, populism thus not only increases uncertainty in the medium term, changing firm expectations of transaction costs during a period of institutional instability, but the successful reordering of institutional missions can also trigger an actual escalation in transaction costs over the longer term. This specific context distinguishes populism from other sources of political uncertainty for businesses, setting it apart from previously scrutinized political pressures in the realm of the international business literature (Henisz & Zelner, 2005).

Consequently, we assert this would discourage corporate investments in general. This leads us to propose our first hypothesis regarding the link between the pressures exerted by the populist ruler and firms' investment behavior.

Hypothesis 1 Firm-level investment declines if the ruler exhibits a strong populist ideology.

The mitigating impact of political institutions

To date, prevailing international business literature examining the impact of populism on business has rested on the assumption that a populist electoral victory in a democratic system directly correlates with the ability to enact promised policies from the campaign trail. However, the reality is that achieving populist electoral success does not automatically ensure a swift enactment of populist policies, as institutional mechanisms embedded within the functioning of a country's political-institutional system may temper the populist's capacity to implement all their envisioned policies. Specifically, the proliferation of checks and balances, and their preexisting strength, within a political system may serve as an effective barrier to the excesses of populism.

Where strong institutions exist, or where political power is divided across several actors, a populist may have less success in turning the entire political institutional system towards populist ends. In this sense, strong institutions include those that have (a) sufficient strength and legitimacy to push back against populist pressure (what Greif & Laitin (2004) called "self-reinforcing institutions") and (b) mechanisms capable not only of resisting but also imposing restrictions on untrammeled executive (or legislative) power. The strength of national-level political institutions could then mitigate the influence populism has on transaction costs and, by extension, corporate choices regarding investment. In other words, institutions robust enough to resist populism may not be those economic rules that are typically linked to investment promotion, such as property rights or investor protection, but would instead be primarily political institutions such as checks and balances.

(a) Populist ideology, electoral institutions, and firm investment behavior

We propose that the electoral system is a relevant determinant in the generation of expectations regarding the escalation of transaction costs, in the presence of a populist ruler, and its subsequent impact on firms' investment decisions. The rules of the electoral system wield substantial influence over the allocation of economic resources and the distribution of political power, especially regarding the conversion of votes into seats, as well as the mechanism by which a government is formed (Norris, 1997). The effectiveness of this moderator depends on whether it allows the concentration of powers in the hands of the winners or keeps power dispersed among many veto points (Barber et al., 2019).

The political science literature commonly classifies electoral institutions as either majoritarian (also called plurality voting) or proportional, each of which offers different incentives to voters, complexity in elections, and channels via which heads of government can implement their policy agendas (Indridason, 2011). The choice of systems plays a crucial role in determining how votes are cast, and seats are allocated (Persson & Tabellini, 2004). Under a majoritarian formula, candidates secure a seat in parliament or Congress only if they get more votes than their competitors in a particular constituency. Consequently, policy-making representation is limited to the winners of each constituency. On the other hand, proportional institutions distribute seats according to the quota of suffrage of each political party, guaranteeing a broader inclusion. This formula grants greater inclusivity to minority groups, allowing them to participate in policy formulation even without winning individual constituencies.

While all electoral institutions tend to provide the party with the most votes the leadership in policy decisions, this is more moderation in proportional formula (Norris, 1997). Proportional institutions often result in multiparty or coalition-based governments, which facilitate the aggregation of policies from different coalition partners and offer better representation of other groups, fostering a balance among political parties and counterweights within the coalition (Pagano & Volpin, 2005). Consequently, electoral proportionality gives rise to agendas that require the convergence of broader political goals based on intricate bargaining processes (e.g., Persson et al., 2003; Powell, 2000). As a result, the elected ruler must negotiate with representatives of other coalition parties before implementing new policies, making their leadership more limited. In contrast, in countries with a majoritarian rule, voting outcomes more directly translate into political results (Indridason, 2011), making the future political agenda announced by the elected ruler more predictable and credible.

The uncertainty generated by the new ruler's agenda could affect corporate investment decisions, given the increase in expected transaction costs. However, the magnitude of this negative effect would be primarily determined by the electoral institutions in place. Particularly, proportional institutions could reduce political uncertainty given by a ruler with a populist ideological orientation, owing to two specific mechanisms. On the one hand, proportional institutions have to carry out the formation of a governing body, which can last for long periods to achieve a convergence of political goals towards a shared agenda among different political forces (Amore & Corina, 2021). In this context, the prominence of the party with the highest vote share becomes diminished, as the key determinant of future government's policy trajectory hinges on the conformation of what can be a very diverse coalition. Consequently, under a proportional formula, the newly-elected government mitigates the risk of being represented solely by a single political vision in political decision-making and reduces the ability of any single party to deliver on its electoral pledges (Thomson et al., 2017).

In contrast, in electoral systems with majoritarian institutions, the predictability of future policies, which a populist ruler would enact, directly hinges on the political manifesto of the elected party (Dow, 2001; Indridason, 2011). In this sense, under a majoritarian electoral system, the policies announced by a ruler with a populist ideology are more likely to be implemented. These features tend to raise fears in companies that such a "rules of the game" change will come true without facing enough opposition, creating major instability in economic policy and an escalation in expected transaction costs (as noted above). This, in turn, affects corporate behavior and especially investment. This leads us to our following hypothesis regarding electoral institutions and firm behavior:

Hypothesis 2a A proportional electoral system weakens the negative effect of populist ideology of the ruler on firm-level investment decisions.

(b) Populist ideology, judicial independence, and firm investment behavior

Judicial independence may provide a check against executive overreach once populist leaders are in power (Prendergast, 2019). The judiciary is the institution tasked with interpreting and upholding laws as crafted by the legislature, a crucial role not only in constraining the power of the executive in economic policy but also in terms of political authority (Melton & Ginsburg, 2014). Judicial independence means that judges have the ability and freedom to incorporate their preferences and viewpoints into their decisions, without the risk of encountering retaliatory actions from Congress or the Head of Government (Hartwell & Urban, 2021; Iaryczower et al., 2002). The independence of the judiciary has been shown to be important in and of itself as a check and balance against a too-strong executive (Hartwell & Urban, 2021; La Porta et al., 2004), as well as being an enabler of positive economic effects such as investor protection and economic growth (Głowacki et al., 2021; Voigt et al., 2015).

The level of political fragmentation and the strength of institutional frameworks are crucial for the judiciary's independence amid political pressure (Segal, 1997). Significant political fragmentation and robust institutions help the judiciary maintain independence, even under pressure. Conversely, in politically unified environments with weaker institutions, the judiciary struggles to resist such pressures. Effective judicial independence requires powers like constitutional review (Ginsburg, 2003) and control over its administration (Haggard et al., 2008). A ruler's control over the legislature can enable the punishment of judges who rule against their preferences. Judges with long terms tend to exhibit greater independence and are more likely to oppose unconstitutional regulations from populist rulers, whereas those with short terms may align their decisions with the populist ruler's proposals, reducing confrontations between the judiciary and the ruler.

Given the transformative aspirations of populism, judicial independence is an institutional mechanism that may delay the expansive policy changes desired by populist leaders, serving as a check against executive initiatives for populists who have already cleared the electoral hurdle (Prendergast, 2019). A highly independent judiciary, especially at the highest levels, which resists populist pressure, can help counteract policy volatility, using constitutional review functions to overrule unconstitutional laws and policies (even if the populists have control of all other branches of government, see Adamidis[, 2021]). From the point of view of business, these checks and balances at the policy level can mitigate the adverse impacts on investment decisions that accompany populism. Taking all of this into account, we also propose the following hypothesis:

Hypothesis 2b Higher levels of judicial independence weaken the negative effect of the populist ideology of the ruler on firm-level investment decisions.

(c) Populist ideology, government accountability, and firms' investment behavior

Accountability is a broad concept which generally means how government officials and elected representatives are held responsible for their actions, decisions, and outcomes of their governance (Grant & Keohane, 2005). It allows those outside government to discipline those in power, as defined by the government of Alberta, Canada, as an "obligation to answer for the execution of one's assigned responsibilities" (quoted in Robinson (2003:172). In political science, accountability refers to the mechanisms and processes through which government officials and elected representatives are held responsible, either politically or legally, for their actions and decisions (Gilmour & Jensen, 1998).

Accountability is precisely the ability to apply sanctions that should be the deterring factor against government overreach (Pelizzo & Stapenhurst, 2013). Although there are various dimensions of accountability, ranging from electoral to legal accountability (Hellwig & Samuels, 2008), its procedures often have a political dimension (as in impeachment in the United States, for example), and they are highly contingent on public opinion and political considerations, as well as legal ones (Romzek & Ingraham, 2000). These limitations as a check and/or balance also include informal mechanisms, such as the strength of civil society, freedom of the press and the ability of professionals and experts to chime in on policy (Hill, 2009). The source of accountability remains in the additional veto point that non-state and non-governmental actors bring (Gregory, 2012).

Proactive measures against populist policies, such as press freedom, civic education programs, and mass protests can contribute to holding the government accountable and placing another speed bump against capricious and/or anti-business policies. Of course, government accountability can be seen in some sense as being the last barrier. Reliance on accountability via non-government means is thus an attempt to either thwart institutional changes that can entrench populists (Hartwell & Devinney, 2021) or to mobilize opposition in later elections to reverse the policies that have already been enacted (Lee, 2020). Seen in this light, accountability may then be thought of not only as a last resort but perhaps one of the weaker checks and balances, but still one that governments may not necessarily ignore.

From the point of view of firms, government accountability may be another way to mitigate the uncertainty triggered by populism, and moderate expectations about escalating transaction costs. Overall, accountability may then have a less dramatic effect in mitigating the effects of populism, as it would be less effective in counteracting uncertainty and the concomitant rise in transaction costs but could act as a brake on transaction costs rising too high. Interestingly, there is little evidence linking accountability and economic decisions made by the private sector, with much of the work in this area examining how accountability affects public sector efficiency and the economy (Morozumi & Veiga, 2016); therefore, we believe we are the first to formulate this final hypothesis:

Hypothesis 2c A strong country-level government accountability weakens the negative effect of populist ideology of the ruler on firm-level investment decisions.

(d) The weakening of checks and balances

While existing literature has underscored the importance of examining how institutions evolve vis-à-vis the environments within which companies operate (Cantwell et al., 2010; Dau et al., 2022), it is essential to realize that institutional evolution is as much a product of external influence as of internal change. This is particularly true when speaking of checks and balances as a means to prevent the implementation of populist policies; the reality of populism is that the constraining power of checks and balances is not static, and these very institutions often come under repeated attack from populist leaders who have attained electoral success. Populist rulers frequently espouse an ideology that explicitly attempts to rally opposition to key political institutions, slowing their functioning if not outright usurping their authority (Hartwell & Devinney, 2021) and creating a game that can continue to raise transaction costs as it is played repeatedly. In this context, the duration of a populist ruler's tenure becomes a pertinent factor that can directly affect the ability of political institutions to resist the consequences of populism on firm investment behavior.

The relationship between populist leaders and the check on executive power is not limited to a single move and is more akin to a cat-and-mouse game, with each side trying to get the upper hand. For instance, the blocking power of the judiciary is recognized by many populist executives, who target the judiciary in particular as one of the institutions that needs to be transformed; thus, the ability of the judiciary to constrain populists may be limited, especially if the political system of a country or the electorate allows for populists to continue returning to power with a new or expanded mandate (Hartwell & Urban, 2021). These powers can even be undercut by legislatures or executives via court packing (i.e., widening the size of the court to include more ideological fellow travelers) or in attempting to term limit judges. In an environment of heightened and enduring levels of political polarization, facilitated by the extended tenure of the populist ruler, the judiciary may find challenges in resisting such pressures during subsequent periods. This heightened influence may also manifest in a coordinated ability to impose punishment, enact replacements, or initiate the removal of judges, legislators, or political opponents.

From the point of view of the firm, businesses may need to recalibrate their expectations regarding the transaction costs of populism as the tenure of a populist ruler extends. Given the limited access to information and processing constraints attributable to bounded rationality, companies may perceive the consequences of the erosion of checks and balances differently as the power of the populist ruler consolidates. Consequently, in the presence of long-serving populist rulers, firms are likely to devise adaptive strategies for making reasonably accurate investment decisions within this uncertain environment. Thus, with an extended tenure of populist rulers, we could expect a decline in corporate investment due to an expected increase in transaction costs.

In the evolution of political institutions, we assert that the proportional electoral system can prove effective in tempering the impulses of a populist ruler, particularly during an extended tenure. The rationale behind this lies in the strategic placement of the proportional electoral system at the entry point to power, shaping the extent to which a populist ruler might act to undermine or seize control of checks and balances. Proportional electoral systems, characterized by a balance and convergence in the agendas of political forces within the government, serve as a check on potential imbalances caused by a prolonged tenure of a populist ruler. This equilibrium factor could condition the effects of the populist ruler even in the scenario of an extended mandate. Taking all these arguments into consideration, we posit the following final hypotheses:

Hypothesis 3a Firm-level investment declines as the duration of a ruler's tenure, exhibiting a strong populist ideology increases.

Hypothesis 3b Among the three checks and balances, only the proportional electoral system weakens the negative effect of the duration of a ruler's tenure, exhibiting a strong populist ideology on firm-level investment.

Identification strategy

Model and variables

For Hypotheses 1, 2a, 2b, and 2c, the baseline model relates firm investment to populism and other investment determinants from literature and theory. Formally:

$$\begin{aligned} I_{ijt} = \alpha_i + \beta_1 \textit{Populist ideology}_{jt} + \beta_2 \textit{moderating variables}_{jt} \\ + \beta_3 \textit{Populist ideology}_{jt} \times \textit{moderating variables}_{jt} \\ + \mathrm{X}'_{ijt}\delta + \gamma_i + \lambda_t + \varepsilon_{ijt} \end{aligned}$$

For Hypotheses 3a and 3b, the baseline model relates firm investment to populism tenure and other investment determinants. Formally:

$$\begin{aligned} I_{ijt} = \alpha_i + \beta_1 \textit{Populist ideology}_{jt} + \beta_2 \textit{moderating variables}_{jt} \\ + \beta_3 \textit{Populist ideology}_{jt} \times \textit{moderating variables}_{jt} \\ + \mathrm{X}'_{ijt}\delta + \gamma_i + \lambda_t + \varepsilon_{ijt} \end{aligned}$$

Dependent variable

In both models, the dependent variable I is corporate investment, measured as the capital expenditures of company i with headquarters in country j, in year t. To harmonize with conventional literature, this variable is adjusted by the initial book value of the firm's total assets each year, following Julio and Yook (2012). The raw data for this variable is sourced from the Compustat database (Global and North America).

Independent variables

The measure of populism in the first regression model (*Populist ideology*) is derived from Hawkins et al. (2019) and constructed using text analysis of speeches for 215 leaders (presidents or prime ministers) across 279 terms from 66 countries. The populism database assesses four specific speeches for each leader (campaign speeches, "most famous" speeches, a "ribbon-cutting" speech, and an international speech) for their adherence to populist themes (Hawkins, 2009). This results in a variable on a continuous scale from zero to two, representing different degrees of populist ideology, with higher values indicating more populism. According to Hawkins et al. (2019), leaders are classified as "Not Populist" (< 0.5), "Somewhat Populist" (0.5–0.99), "Populist" (1.0–1.49), and "Very Populist" (> 1.50). Based on the theory in the previous section, we expect countries with leaders exhibiting higher populist discourse to have lower corporate investment, *ceteris paribus*.

The second independent variable, *Populist tenure*, in the second regression model, is a discrete variable representing the cumulative number of consecutive years a populist leader governs a country. It ranges from 0 (no populist ruler) to 16 (16 consecutive years of populist rule). This variable was derived by manually counting the consecutive years each populist leader governed their country.

Moderating variables

We hypothesize three institutional mechanisms that can mitigate the negative effect of populist ideology on firm investment. The first is electoral institutions. To capture this, we use the classification from the Varieties of Democracy (V-Dem) Dataset (Pemstein et al., 2023). We use the dichotomous variable *Proportional*, which distinguishes between proportional electoral institutions ($pr = 1$) and other arrangements, such as majoritarian and mixed institutions ($pr = 0$). We believe that countries with proportional electoral institutions will moderate the effect of populism on firm investment.

The second mechanism is judicial independence. Hypothesis 2b suggests that the negative impact of a populist ruler on firm-level investment can be mitigated by an independent high court. To test this, we use the V-Dem dataset's "high court independence" variable (*Court*). This expert-coded variable assesses how often the high court opposes or aligns with government wishes on a scale from 0 (always aligning) to 4 (never aligning). We expect that higher judicial independence, as indicated by this variable, will reduce the harmful effects of populism on firm investment.

The third moderating variable tests Hypothesis 2c, which posits a positive effect of government accountability on firm investment. Using V-Dem's "accountability" variable (*Accountability*), we assess the mechanisms through which citizens, civil society organizations, and independent media hold the government accountable. This variable ranges from 0 (low accountability) to 2 (high accountability). To examine the combined effect of the three moderators, we include a three-way interaction term in the regression model.

Control variables

We derive our control variables from established metrics known to influence firm investment decisions: Firm Size (*Size*), estimated by the logarithm of the book value of total assets, and Return on Assets (*ROA*), as the ratio of earnings before taxes, depreciation, or interest to the beginning-of-year book value of total assets. Larger and more successful firms are expected to invest more. For country-specific effects, we include the following macroeconomic controls: Economic Growth (*GDP growth per capita*), data from the World Bank World Development Indicators (WDI) to account for variations in corporate investment due to economic conditions; *Unemployment*, the country's unemployment rate to capture labor market influences on firm investment; Domestic Investment (*DI*), calculated by deducting FDI from gross fixed capital formation to measure pure domestic investment, also from the World Bank WDI; *Openness to Investment*, The FDI to GDP ratio from the IFS database to assess a country's openness to international trade; and Economic Policy Uncertainty (*Uncertainty*), to isolate the impact of populism from other causes of policy uncertainty, we use the index of Economic Policy Uncertainty (Davis, 2016). A detailed description of the variables and data sources is presented in the Appendix.

Our dataset includes over 332,000 company-level observations across 42 democratic countries from 1995 to 2021. We chose 1995 as the starting point due to data availability and its alignment with the surge in globalization post-communism. The dataset also covers the reversal of this trend, including the global financial crisis, marking the rise of populist leaders. Figure 1 shows fluctuations in populism from 1995 to 2021, indicating an increase over the years across countries.

Table 1 provides a country-wise breakdown of the data. Table 2 presents summary statistics (Panel A) and a correlation matrix (Panel B). The correlation coefficients in Panel B are all below the recommended threshold of 0.7, indicating no collinearity concerns. We also use the variance inflation factor (VIF) test to measure the increase in variance of estimated regression coefficients due to predictor correlation. A VIF of 1 indicates no correlation, while values over 5 or 10 suggest collinearity issues. Panel C shows a mean VIF of 1.59 for Populist Ideology and 1.60 for Populist Tenure, confirming no collinearity concerns. A more detailed variable description is provided in Table 7 of the Appendix.

Our baseline model includes moderating variables (*Proportional*, *Court*, and *Accountability*) and their interaction with *Populist ideology*, capturing the potential buffering effect of electoral institutions, judicial independence, and government accountability. We expect these moderating variables to mitigate the adverse influence of *Populist ideology* on *Corporate investment*, resulting in positive coefficients for the interaction terms. We estimate Equation 1 using a panel fixed effects model, including country and year×industry (two-digit SIC) dummies to remove invariant country heterogeneity and industry-time effects. Firm fixed effects control for unobserved firm heterogeneity. Standard errors are clustered at the firm level to account for potential within-firm correlation.

Instrumental variable

To address potential endogeneity between uncertainty and populism, we use an instrumental variable approach, adding robustness to our estimation framework. Periods preceding populist governments are marked by political uncertainty due to job losses, economic recessions, austerity measures, automation, and anti-globalization sentiment (Baccini & Weymouth, 2021; Colantone & Stanig, 2018; Fetzer, 2019; Rodrik, 2018). Populist rulers exploit and increase this uncertainty by promoting anti-globalization policies and undermining stabilizing institutions.

A valid instrument must correlate with *Populist ideology* and be unrelated to omitted variables impacting firms' investments (Wooldridge, 2005). We use leaders' speeches during electoral campaigns (*Speeches campaign*) as an instrument. These speeches predict a politician's ideology in office but have little effect on future corporate investment. This is because candidates while expressing their policies and ideologies, lack the authority to implement regulations during campaigns. Campaign rhetoric shapes public perception but does not immediately influence firm investments.

However, there is a connection between campaign rhetoric and subsequent governing principles. During campaigns, leaders communicate their ideological stances and policy preferences to align with voter sentiments. Thus, electoral

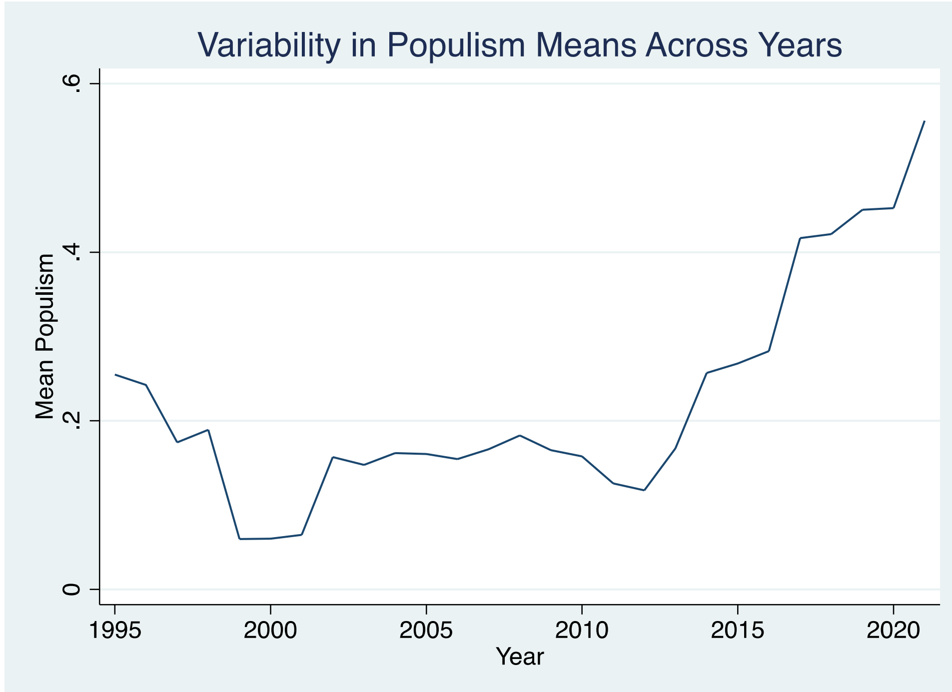

Fig. 1 Variability in populism means 1995–2021

campaign messages offer valuable insights into the true ideological orientation of political leaders.

Results

In Table 3, we test Hypotheses 1, 2a, 2b, and 2c using a fixed-effects specification. Model 1 tests Hypothesis 1, showing that *Populist ideology* has a significant negative coefficient of -0.011 (p value < 0.001), meaning a one-unit increase in populist ideology predicts a 0.011 unit decrease in firms' capital investment, supporting Hypothesis 1. Model 2, testing Hypothesis 2a, includes the interaction between *Populist ideology* and *Proportionality*. The direct effect of populist ideology is negative and significant at the 1% level, while the interaction term is positive and significant at the 1% level. A one-unit increase in populist ideology in countries with proportional systems predicts a 0.016-unit increase in investment, supporting Hypothesis 2a. Therefore, firms operating in countries with proportional systems are less affected in their investments by populist leaders than their counterparts in plurality or mixed systems. Model 3 tests Hypothesis 2b, including the interaction between *Populist ideology* and *Court*. The direct effect remains negative and significant at the 1% level, and the interaction term is positive and significant at the 5% level. Therefore, firms operating in countries with autonomous judicial decision-making are less affected in their investments by populist leaders than their counterparts in countries governed by populist leaders but with less autonomous systems, supporting Hypothesis 2b. Model 4 tests Hypothesis 2c, including the interaction between *Populist ideology* and *Accountability*. The direct effect is negative but not significant, while the interaction term is positive and statistically significant at the 5% level. Firms in countries with strong government accountability are less affected in their investments by populist rulers than those with weaker accountability, supporting Hypothesis 2c. Model 5 is a full model, which includes all three two-way interactions in order to account for the reality that these interactions may be correlated; when including all measures, proportional electoral system, and independent courts remain strongly significant in moderating the effects of populism.

In Table 4, we test Hypotheses 1, 2a, 2b, and 2c using the IV-2SLS specification. Panel A presents the first stage of the 2SLS regression model. Model 1 shows that *Populist ideology*, instrumented with *Speeches campaign* (leaders' campaign speeches), is significantly correlated at the 1% level, establishing the validity of our instrument. Model 2 instruments *Populist ideology* × *Proportionality* with *Speeches campaign* × *Proportionality* for Hypothesis 2a. Model 3 uses *Speeches campaign* × *Court* to instrument *Populist ideology* × *Court* for Hypothesis 2b, and Model 4 uses *Speeches campaign* × *Accountability* to instrument *Populist ideology* × *Accountability* for Hypothesis 2c. As in Table 3, Model 5 includes all interactions together in order to account for cross-correlation. All models exhibit statistically significant positive correlations at the 1% level. We

Table 1 Summary of the data by country 1995–2021

Country	Obs. (firm-year)	Electoral institutions*	Ideological orientation	Years in office†
Argentina	1412	Proportional	Somewhat populist	1995–2002
Austria	1102	Proportional	Not populist	
Brazil	5732	Proportional	Somewhat populist	2019–2021
Bulgaria	775	Proportional	Somewhat populist	2010–2013
Canada	26,778	Majoritarian	Not populist	
Chile	2761	Proportional	Not populist	
Colombia	667	Proportional	Not populist	
Croatia	1222	Proportional	Somewhat populist	1996–1999
			Somewhat populist	2003–2009
Czech Republic	291	Proportional	Somewhat populist	2003–2005
			Populist	2006–2013
Ecuador	27	Proportional	Populist	2007–2009
			Very populist	2010–2016
Finland	702	Proportional	Not populist	
France	10,118	Majoritarian	Not populist	
Germany	10,910	Mixed	Not populist	
Ghana	18	Majoritarian	Not populist	
Greece	1461	Proportional	Not populist	
Hungary	289	Mixed	Somewhat populist	2010–2021
India	51,950	Majoritarian	Somewhat populist	2014–2021
Ireland	699	Proportional	Not populist	
Italy	4209	Proportional	Somewhat populist	2002–2005
			Somewhat populist	2008–2011
			Somewhat populist	2018–2021
Japan	31,783	Mixed	Not populist	
Latvia	363	Proportional	Somewhat populist	2003–2007
Lithuania	533	Mixed	Not populist	
Mexico	1944	Mixed	Somewhat populist	2019–2021
Mongolia	4	Mixed	Not populist	
Netherlands	639	Proportional	Not populist	
Norway	3352	Proportional	Not populist	
Panama	47	Mixed	Somewhat populist	2009–2014
Peru	1387	Proportional	Populist	2006–2010
			Somewhat populist	2011–2015
Philippines	3097	Mixed	Somewhat populist	1998–2000
			Somewhat populist	2010–2015
			Populist	2016–2021
Poland	8147	Proportional	Somewhat populist	2005–2009
Romania	1127	Proportional	Somewhat populist	2004–2008
Russia	2818	Proportional	Somewhat populist	2008–2018
S. Africa	4844	Proportional	Not populist	
Slovakia	125	Proportional	Very populist	1997–1998
			Somewhat populist	2006–2010
Spain	2269	Proportional	Not populist	
Sweden	8482	Proportional	Not populist	
Switzerland	1190	Proportional	Somewhat populist	2021
Turkey	4242	Proportional	Somewhat populist	2007–2013
			Populist	2014–2021
United Kingdom	24,952	Majoritarian	Not populist	
Ukraine	265	Proportional	Populist	2006–2009
			Somewhat populist	2010–2019
United States	109,852	Majoritarian	Somewhat populist	2017–2021
Venezuela	151	Mixed	Very populist	2000–2016

Table 1 (continued)

*The electoral institutions variable is reported as of 2021.

†The variable "Years in Office" may not reflect the complete duration of the president or prime minister's term, as it considers only the data points where all variables have non-missing values.

Table 2 Summary statistics and correlation

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Panel A: Summary statistics					
Corporate investment	332,735	.055	.092	0	.999
Populist ideology	332,735	.247	.267	0	1.916
Populist tenure	332,735	.794	2.036	0	16
Size	332,735	6.475	2.987	– 6.907	22.577
ROA	332,735	.021	.349	– 3.7375	.6276
GDP growth per capita	332,735	1.766	2.999	– 18.854	23.200
Unemployment	332,735	6.603	3.398	2.24	29.88
DI	332,735	20.433	6.175	– 81.788	64.808
FDI of GDP	332,735	2.325	4.031	– 40.081	108.420
Uncertainty	332,735	.208	.151	0	1.179

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel B: Correlation matrix										
(1) Corporate investment	1.000									
(2) Populist ideology	– 0.047	1.000								
(3) Populist tenure	– 0.023	0.761	1.000							
(4) Size	– 0.005	0.001	0.112	1.000						
(5) ROA	0.044	– 0.029	0.031	0.394	1.000					
(6) GDP growth per capita	0.075	0.072	0.122	0.040	0.069	1.000				
(7) Unemployment	0.019	– 0.023	0.008	– 0.131	0.028	– 0.086	1.000			
(8) DI	0.042	– 0.014	0.165	0.225	0.059	0.231	– 0.254	1.000		
(9) FDI of GDP	0.038	– 0.035	– 0.036	– 0.070	0.004	0.072	0.029	– 0.695	1.000	
(10) Uncertainty	– 0.077	0.215	0.020	– 0.096	– 0.051	– 0.310	0.024	– 0.248	– 0.049	1.000

Variables	VIF	1/VIF
Panel C: VIF test with populist ideology		
Populist ideology	1.09	0.929
Size	1.28	0.783
ROA	1.20	0.832
GDP growth per capita	1.27	0.789
Unemployment	1.15	0.871
DI	2.97	0.336
FDI of GDP	2.49	0.401
Uncertainty	1.31	0.762
Mean VIF	1.59	

Variables	VIF	1/VIF
Panel D: VIF test with populist tenure		
Populist tenure	1.07	0.931
Size	1.28	0.779
ROA	1.20	0.833
GDP growth per capita	1.25	0.803
Unemployment	1.16	0.863
DI	3.08	0.325
FDI of GDP	2.52	0.396
Uncertainty	1.26	0.791
Mean VIF	1.60	

Table 3 Fixed effects regression. The effect of populist ideology on firm investment and its moderators (1995–2021)

DV: Firm investment	H1	H2a	H2b	H2c	H2 Full model
	(1)	(2)	(3)	(4)	(5)
Populist ideology (H1)	– 0.011	– 0.016	– 0.017	– 0.005	– 0.017
	(0.000)	(0.000)	(0.000)	(0.116)	(0.000)
Populist ideology × Proportional (H2a)		0.016			0.019
		(0.000)			(0.000)
Populist ideology × Court (H2b)			0.003		0.006
			(0.013)		(0.001)
Populist ideology × Accountability (H2c)				0.004	0.000
				(0.035)	(0.946)
Size	0.005	0.005	0.005	0.005	0.005
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ROA	– 0.003	– 0.003	– 0.003	– 0.004	– 0.003
	(0.026)	(0.024)	(0.020)	(0.010)	(0.013)
GDP growth per capita	0.001	0.002	0.001	0.001	0.001
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment	– 0.001	– 0.001	– 0.002	0.002	0.001
	(0.526)	(0.240)	(0.027)	(0.064)	(0.626)
DI	0.029	0.028	0.026	0.024	0.022
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FDI of GDP	0.022	0.002	0.002	0.002	0.002
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Uncertainty	– 0.001	– 0.001	– 0.002	– 0.005	– 0.005
	(0.369)	(0.455)	(0.104)	(0.000)	(0.000)
Proportional		– 0.008			– 0.007
		(0.000)			(0.000)
Court			0.007		0.001
			(0.000)		(0.469)
Accountability				0.021	0.019
				(0.000)	(0.000)
Constant	– 0.065	– 0.059	– 0.065	– 0.088	– 0.078
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Observations	328,611	328,611	328,611	328,611	328,611
Country FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes	Yes

p values are reported in parentheses. Robust standard errors are clustered by firm.

further validate the instrument using the Sanderson–Windmeijer F test and Kleibergen–Rubin rk Wald F test for weak instruments, and the Sanderson–Windmeijer Chi-square test for under-identification. All models reject the null hypothesis of weak instruments and under-identification at the 1% level, confirming correct model identification (Sanderson & Windmeijer, 2016; Stock & Yogo, 2005).

Table 4, Panel B, presents the second stage of the 2SLS regression model. Model 1, focusing on the impact of populist ideology on firms' investment, shows a significant negative coefficient of – 0.029 (p value < 0.001). This coefficient signifies a 20% decrease in investment from the average of 0.05, supporting Hypothesis 1. Model 2 explores the moderating effect of proportional institutions on the relationship between populist ideology and investment. The interaction term between *Populist ideology* and *Proportional* is positive and significant at the 1% level. This coefficient (0.033) indicates a 58% increase in investment from the average of 0.05 in countries with a proportional system, meaning a one-unit increase in populist ideology in these countries is associated with a 0.016-unit moderating effect on firms' investment, holding other variables constant. This supports Hypothesis 2a. In Model 3, we explore the moderating effects of court independence on the relationship between

Populist Ideology and investment. The positive and significant coefficient (0.010) at the 1% level suggests a 16% increase in investment from the average of 0.05 in countries with independent courts. This means that firms in countries with autonomous judicial decision-making are less affected in their investments by populist rulers than those in countries with less autonomous courts. Model 4 examines the moderating effect of government accountability. The positive and significant coefficient (0.026) at the 1% level indicates a 47% increase in investment from the average of 0.05 in countries with higher accountability. Therefore, firms in countries with strong government accountability are less affected in their investments by populist rulers than those in countries with weaker accountability. Finally, Model 5, including all interactions, shows that proportionality and accountability remain important for mitigating the influence of populism while the significance of the judiciary is diminished. In all models, the direct effect of populist ideology on firm investment remains negative and statistically significant (p value < 0.001).

In Table 5, we test Hypotheses 3a and 3b using a fixed-effects regression. The sample for this model consists only of firms in country-years where the leader is identified as having a populist ideology. To define a leader as populist, we rely on the classification by Hawkins (2019), using a threshold of greater than 0.5. Model 1 presents results for Hypothesis 3a, examining the impact of *Populist tenure* on firm investments. The significant negative coefficient of – 0.002 (p value < 0.001) indicates a 0.25% drop in investment from the average of 0.794 with a one-unit increase in *Populist tenure*, supporting Hypothesis 3a. Model 2 includes the interaction term between *Populist tenure* and *Proportionality*. The direct effect remains negative and significant at the 1% level, while the interaction term is positive and significant at the 1% level. This suggests a one-unit increase in *Populist tenure* in proportional systems predicts a 0.002-unit moderation in firms' investment versus majoritarian or mixed systems, supporting Hypothesis 3b. Models 3 and 4 include interaction terms between *Populist tenure* and *Court*, *Populist tenure* and *Accountability*, respectively. The interaction terms with *Court* and *Accountability* are not statistically significant. This indicates that firms in countries with proportional systems invest more under populist leaders, regardless of judicial autonomy or government accountability.

Robustness checks

We present several robustness checks to corroborate our findings. First, we control for the annual global Economic Policy Uncertainty index (Davis, 2016) in all regressions to separate populism from other sources of aggregate uncertainty. Additionally, we use a recently released database on populist ideology (Funke et al., 2023), as a sensitivity analysis. This database includes 1482 leaders with 1853 leader spells across 60 countries from 1900 to 2020, using data from the Archigos database. The populist variable is a dummy, with 1 for populist leaders and 0 otherwise. Table 6 presents 2SLS regression results for Hypotheses 1, 2a, 2b, 2c, and 3 using this alternative measure of populism, aligning with our primary findings. The direct impact of *Populist ideology* on firm investment is negative and statistically significant at the 1% level. The moderators also show statistical significance, positively moderating the negative effect of populism on firm investment. We added other robustness tests in the online Appendix. These consistent results bolster the robustness and reliability of our conclusions, reinforcing the validity of our main analysis.

Discussion

This paper contributes to the literature on political uncertainty in international business by examining how the electoral success of populism influences corporate investment and the role of political institutions in mitigating this impact. Populism is a relevant issue in international business as it introduces a unique political pressure affecting corporate decision-making. Historically linked to countries with weak institutional frameworks, populism's emergence in mature democracies with stable economies is a recent phenomenon. Managers of multinational companies must understand the implications of interactions between populist rulers and institutional checks and balances. Therefore, studying this political disruption is essential for both academic research and practical applications in international business.

Our work focuses on the transaction costs that populism creates through institutional change. Unlike other governance arrangements, populism exerts a unique political pressure that shapes corporate decision-making by seeking to undermine, alter, or co-opt restrictive political institutions. This undermining of institutions increases transaction costs by placing more discretion in the hands of the government. Firms react to this shifting environment in their investment decisions due to limited rationality and opportunistic behavior.

Our novelty lies in showing how existing political institutions might resist and mitigate the damage to firm investment, subjected to attack from populist leaders. We examined three specific institutions: the electoral system, the independence of the judiciary, and government accountability. Importantly, populist policies aim to undermine institutions over time. We highlight how checks and balances reinforce each other and the nature of populist pressure, underscoring the implications of prolonged populist ruler tenure on diminishing the effectiveness of these checks and balances.

Table 4 2SLS regression. The effect of populist ideology on firm investment and its moderators (1995–2021)

DV: Populist ideology	H1 (1)	H2a (2)	H2b (3)	H2c (4)	H2 Full model (5)
Panel A. 2SLS fsirst stage					
Speeches campaign (H1)	0.328	0.307	0.311	0.146	0.145
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Speeches campaign × Proportionality (H2a)		0.451			0.469
		(0.000)			(0.000)
Speeches campaign × Court (H2b)			0.367		0.228
			(0.000)		(0.000)
Speeches campaign × Accountability (H2c)				0.609	0.597
				(0.000)	(0.000)
Size	0.002	0.002	0.001	– 0.001	– 0.002
	(0.001)	(0.000)	(0.487)	(0.095)	(0.004)
ROA	0.007	– 0.000	0.013	0.008	0.008
	(0.000)	(0.636)	(0.000)	(0.000)	(0.000)
GDP growth per capita	0.001	– 0.003	0.005	– 0.001	– 0.001
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Unemployment	– 0.069	0.017	– 0.253	– 0.072	0.176
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DI	0.115	0.017	0.041	0.141	0.038
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FDI of GDP	0.006	– 0.001	– 0.002	0.007	0.000
	(0.000)	(0.324)	(0.000)	(0.000)	(0.546)
Uncertainty	0.180	0.006	0.372	0.248	0.248
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Proportionality		0.060			– 0.143
		(0.000)			(0.000)
Court			0.357		0.287
			(0.000)		(0.000)
Accountability				– 0.428	– 0.634
				(0.000)	(0.000)
Observations	328,098	328,098	328,098	328,098	328,098
Country FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes	Yes
Test of weak instrument for Populist ideology:					
S-W F test - *p* value	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
K-P Wald rk F test	62,049	40,067	5783	11,281	2467
Test of weak instrument for Populist ideology × Moderator:					
S-W F test- *p* value		(0.000)	(0.000)	(0.000)	
Test under-identification for Populist ideology:					
S-W Chi-sq test	62,376	80,397	8629	20,728	20,313
p value	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Test under-identification for Populist ideology × Moderator:					
S-W Chi-sq test		34,736	9726	11,674	
p value		(0.000)	(0.000)	(0.000)	

DV: Firm investment	H1	H2a	H2b	H2c	H2 Full model
Panel B. 2SLS Second Stage	(1)	(2)	(3)	(4)	(5)

Table 4 (continued)

DV: Firm investment	H1	H2a	H2b	H2c	H2 Full model
Populist ideology (H1)	– 0.029	– 0.036	– 0.042	– 0.050	– 0.063
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Populist ideology × Proportionality (H2a)		0.033			0.041
		(0.000)			(0.000)
Populist ideology × Court (H2b)			0.010		– 0.002
			(0.000)		(0.588)
Populist ideology × Accountability (H2c)				0.026	0.028
				(0.000)	(0.000)
Size	0.005	0.005	0.005	0.005	0.005
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
ROA	– 0.003	– 0.003	– 0.003	– 0.004	– 0.003
	(0.018)	(0.015)	(0.012)	(0.008)	(0.012)
GDP growth per capita	0.002	0.002	0.001	0.001	0.0013
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment	– 0.001	– 0.002	– 0.001	0.004	0.001
	(0.471)	(0.085)	(0.338)	(0.000)	(0.555)
DI	0.029	0.027	0.028	0.029	0.025
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FDI of GDP	0.002	0.002	0.002	0.023	0.002
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Uncertainty	0.002	0.002	– 0.001	– 0.003	– 0.001
	(0.234)	(0.188)	(0.584)	(0.094)	(0.549)
Proportionality		– 0.014			– 0.014
		(0.000)			(0.000)
Court			0.003		0.007
			(0.023)		(0.001)
Accountability				– 0.002	– 0.010
				(0.400)	(0.010)
Observations	328,098	328,098	328,098	328,098	328,098
Country FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes	Yes

p value are reported in parentheses. Robust standard errors are clustered by firm.

While our findings align with the propositions in our theoretical framework, they also unveil new opportunities for future research in international business. We propose three avenues for further exploration.

Firstly, more in-depth investigations are needed on multinational enterprises (MNEs) that invest in both host and home countries and face challenges from populist rulers in either domain. While our study encompasses corporate investment for both domestic companies and MNEs investing in their home countries, and other studies (e.g., Carballo & Corina, 2024) have examined foreign direct investment behavior, a dedicated focus on MNEs is necessary. In Table 8 of Appendix, we present results when restricting our sample to MNEs alone. Our theoretical framework explains the investment behavior of multinationals, showing that investment in the home country decreases with populist rulers, and that the three checks and balances, are significant positive moderators in their investment decisions. Expanding this analysis to include additional factors, such as MNE diversification and strategies in countries with populist rulers would be beneficial, opening new research opportunities.

Secondly, future research should delve into the long-term effects of populist rulers and explore potential repercussions after their tenure concludes. In Table 9 of Appendix, we perform a cursory analysis using our current sample to scrutinize the impacts of populist rulers on corporate investment post-tenure. Our findings suggest that adverse effects persist up to 5 years after their rise to power. However, definitive

Table 5 Fixed effects regression. The effect of populist tenure on firm investment and moderators (1995–2021)

DV: Firm investment	H3a	H3b		
	(1)	(2)	(3)	(4)
Populist tenure (H3a)	– 0.002	– 0.002	– 0.002	– 0.002
	(0.000)	(0.000)	(0.005)	(0.002)
Populist tenure × Proportionality (H3b)		0.001		
		(0.041)		
Populist tenure × Court			– 0.000	
			(0.705)	
Populist tenure × Accountability				0.000
				(0.812)
Size	0.007	0.007	0.008	0.007
	(0.000)	(0.000)	(0.000)	(0.000)
ROA	– 0.002	– 0.002	– 0.002	– 0.002
	(0.503)	(0.490)	(0.505)	(0.502)
GDP growth per capita	0.000	0.000	0.0004	0.000
	(0.063)	(0.262)	(0.074)	(0.071)
Unemployment	0.004	0.004	0.004	0.004
	(0.167)	(0.215)	(0.191)	(0.165)
DI	0.019	0.021	0.019	0.019
	(0.020)	(0.011)	(0.029)	(0.032)
FDI of GDP	0.001	0.001	0.001	0.001
	(0.005)	(0.003)	(0.004)	(0.007)
Uncertainty	– 0.008	– 0.007	– 0.008	– 0.008
	(0.084)	(0.151)	(0.067)	(0.077)
Proportionality		– 0.069		
		(0.015)		
Court			0.002	
			(0.568)	
Accountability				– 0.000
				(0.901)
Constant	– 0.069	– 0.066	– 0.072	– 0.066
	(0.016)	(0.000)	(0.015)	(0.040)
Observations	60,954	60,954	60,954	60,954
Country FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes

p values are reported in parentheses. Robust standard errors are clustered by firm.

conclusions are premature due to the limited timeframe of 1995–2021. Future research could utilize more extensive data to determine if the effects on corporate investment persist longer. This would require a theoretical framework focusing on both formal and informal institutions, as well as cultural factors that may explain persistence patterns.

Lastly, the role of the political orientation of populist rulers and its effect on corporate decisions warrants further exploration. In Table 10 of the Appendix, we preliminarily assess the impact of rulers with different political orientations on firm investments, categorizing our sample into right-wing, left-wing, and non-political orientation populist rulers. Interestingly, our findings do not show negative effects from either right-wing or left-wing populist rulers on corporate investments. Instead, negative effects stem from populist rulers without a formal political orientation, considered the counterfactual group in our analysis. This suggests a need for a deeper examination of how political orientation influences corporate investment decisions under populist regimes.

We propose two possibilities for future research to analyze the effects of the political orientation of populist rulers on firms' behavior. Firstly, it may be worthwhile to explore whether populists lacking a clear political orientation generate higher transaction costs due to increased ambiguity and confusion surrounding their policies. This perspective aligns

Table 6 Robustness check. 2SLS second-stage regression. The effect of populist ideology on firm investment and its moderators (1995–2021) with different populist ideology measure

DV: Firm investment	H1 (1)	H2a (2)	H2b (3)	H2c (4)
Populist ideology (H1)	– 0.024	– 0.026	– 0.066	– 0.036
	(0.000)	(0.000)	(0.000)	(0.000)
Populist ideology × Proportionality (H2a)		0.026		
		(0.000)		
Populist ideology × Court (H2b)			0.029	
			(0.000)	
Populist ideology × Accountability (H2c)				0.023
				(0.000)
Size	0.005	0.005	0.005	0.005
	(0.000)	(0.000)	(0.000)	(0.000)
ROA	– 0.004	– 0.004	– 0.004	– 0.004
	(0.008)	(0.008)	(0.004)	(0.003)
GDP growth per capita	0.002	0.002	0.001	0.001
	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment	– 0.003	– 0.002	0.001	0.004
	(0.009)	(0.053)	(0.352)	(0.000)
DI	0.025	0.025	0.024	0.022
	(0.000)	(0.000)	(0.000)	(0.000)
FDI of GDP	0.002	0.002	0.002	0.002
	(0.000)	(0.000)	(0.000)	(0.000)
Uncertainty	0.004	0.002	– 0.006	– 0.006
	(0.022)	(0.119)	(0.002)	(0.000)
Proportionality		– 0.013		
		(0.000)		
Court			– 0.012	
			(0.000)	
Accountability				– 0.002
				(0.573)
Observations	326,698	326,698	326,698	326,698
Country FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes

p values are reported in parentheses. Robust standard errors are clustered by firm.

with our theoretical framework, considering the implications on bounded rationality and opportunistic behavior. A careful examination of the effects of political orientation—and how this interacts with populist leaders and their political parties—would therefore be welcome to further illustrate the channels via which political orientation influences investment.

Another plausible explanation could be that the rise of populism is reshaping the political landscape in many countries, where the traditional political dichotomy between left and right-wing, predominantly centered on economic and redistributive policies, is waning or being displaced by a new conflict. Disruptions such as globalization and advancements in technology have heightened polarization, giving rise to disparities in cultural and educational attitudes (Bonomi et al., 2021; Norris & Inglehart, 2019) and affecting some firms' decision-making processes (Barber IV & Blake, 2024). This has resulted in the emergence of two new antagonistic groups: those with nationalist and socially conservative perspectives juxtaposed with those holding cosmopolitan and socially progressive positions. Consequently, contemporary political conflict extends beyond the conventional left-versus-right division, evolving into a two-dimensional struggle encompassing both left-right and cosmopolitan-nationalist dimensions (Tabellini, 2019). Undoubtedly, unraveling the implications of the evolving political landscape, particularly the ideological distance introduced by the cosmopolitan-nationalist dimension, demands extensive discussions, thorough analysis, and innovative theoretical proposals for firms and organizations (Barber IV & Blake, 2024; Ertug et al., 2023; Harding et al., 2024). The impact of such shifts on the political pressures exerted by populist rulers on corporate decisions presents a fertile and promising ground that deserves rigorous exploration and deeper understanding in the field of international business.

Appendix

See Tables7,8,9 and10.

Table 7 Variables

Variable	Definition	Source
Panel A. Firm-level variables		
Firm investment	Capital expenditures divided by beginning-of-year book value of total assets	Compustat
Size	Natural logarithm of the book value of total assets denominated in US dollars	Compustat
ROA	Earnings before interest and taxes plus depreciation divided by beginning-of-year book value of total assets	Compustat
Panel B. Country-level variables		
Variable	Definition	Source
Populist ideology	Degree of populist ideology based on speeches for 215 unique leaders. Continuous variable from 0 to 2. Values below 0.5 classified as "Not Populist," those with indicators ranging from 0.5 (inclusive) to 0.99 (inclusive) categorized as "Somewhat Populist," those within the range of 1.0 (inclusive) and 1.49 (inclusive) classified as "Populist," and those above 1.50 considered as "Very Populist."	Hawkins, 2019
Populist tenure	Discrete variable ranges from 0 (indicating the absence of a ruler with populist ideology in a particular country j) to 18 (representing 18 continuous years of a ruler with populist ideology in a particular country j). It counts the cumulative number of consecutive years during which a leader with populist ideology governs a country	Self-measured based on Hawkins (2019) database
Proportional	Dummy variable taking values of one for countries which electoral system is classified as proportional and zero otherwise	Varieties of Democracy Dataset
Court	Continuous measure ranging from 0 (indicating lower levels of high court independence) to 4 (indicating higher levels of high court independence, or never adhering to government desires)	Varieties of Democracy Dataset
Accountability	Continuous measure ranging from 0 (indicating lower levels of government accountability) to 2 (indicating higher levels of government accountability)	Varieties of Democracy Dataset
GDP growth per capita	GDP growth rate divided by population	Word Bank Country Development Indicators
Unemployment	Unemployment rate	Word Bank Country Development Indicators
DI	Foreign direct investment minus gross fixed capital formation	Word Bank Country Development Indicators
FDI of GDP	Foreign direct investment as percentage of GDP	Word Bank Country Development Indicators
Uncertainty	Economic Policy Uncertainty Index	Davis (2016)
Panel C. *Variables added in the robustness checks analysis*		
Dummy populism	Dummy variable taking values of one for populist leaders and zero otherwise. This variable is based on a codification of a sample of 1482 leaders with 1853 leader spells in 60 countries from 1900 to 2020	Funke et al. (2023)
Right-wing	Dummy variable equal to 1 if the political orientation of the leader is classified as right-wing, zero otherwise	DPI2020 Database of Political Institutions
Left-wing	Dummy variable equal to 1 if the political orientation of the leader is classified as left-wing, zero otherwise	DPI2020 Database of Political Institutions
Age	Natural logarithm of firm listing age	Compustat
Tobin’s Q	Natural logarithm of the sum of the market value of outstanding common shares and the book value of liabilities, divided by the book value of total assets	Compustat
Leverage	Total debts divided by total assets	Compustat
Dividend	Dummy variable set equal to one if the firm pays a regular dividend, and zero otherwise	Compustat

Table 8 2SLS second-stage regression. The effect of populist ideology on MNE's home country investment (1995–2021)

DV: MNE's home country investment	(1)	(2)	(3)	(4)
Populist ideology	– 0.035	– 0.044	– 0.042	– 0.034
	(0.000)	(0.000)	(0.000)	(0.000)
Populist ideology × Proportionality		0.040		
		(0.000)		
Populist ideology × Court			0.006	
			(0.022)	
Populist ideology × Accountability				0.008
				(0.004)
Size	0.002	0.002	0.003	0.002
	(0.000)	(0.000)	(0.000)	(0.000)
ROA	0.029	0.028	0.029	0.028
	(0.000)	(0.000)	(0.000)	(0.000)
GDP growth per capita	0.001	0.001	0.001	0.001
	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment	0.003	0.002	0.002	0.005
	(0.047)	(0.209)	(0.123)	(0.001)
DI	0.039	0.035	0.039	0.036
	(0.000)	(0.000)	(0.000)	(0.000)
FDI of GDP	0.002	0.002	0.003	0.002
	(0.000)	(0.000)	(0.000)	(0.000)
Uncertainty	0.003	0.003	0.000	– 0.002
	(0.168)	(0.165)	(0.839)	(0212)
Proportionality		– 0.019		
		(0.000)		
Court			0.000	
			(0.813)	
Accountability				0.008
				(0.003)
Observations	178,275	178,275	178,275	178,275
Country FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes

p values are reported in parentheses. Robust standard errors are clustered by firm.

Table 9 2SLS second-stage regression. The effect of populist ideology on firm investment and the synergies between moderators in t+1, t+2, t+3, and t+5.

DV: Firm investment	t+1	t+1	t+1	t+2	t+2	t+2	t+3	t+3	t+3	t+5	t+5	t+5
Populist ideology	– 0.021	– 0.029	– 0.028	– 0.019	– 0.030	– 0.032	– 0.017	– 0.033	– 0.032	– 0.020	– 0.032	– 0.034
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Populist ideology × Proportionality	0.018			0.019			0.017			0.018		
	(0.000)			(0.000)			(0.000)			(0.000)		
Populist ideology × Court		0.011			0.012			0.015			0.013	
		(0.000)			(0.000)			(0.000)			(0.000)	
Populist ideology × Accountability			0.017			0.020			0.020			0.020
			(0.000)			(0.000)			(0.000)			(0.000)
Size	– 0.001	– 0.000	– 0.001	– 0.001	– 0.000	– 0.000	– 0.000	0.000	0.000	– 0.000	0.000	0.000
	(0.904)	(0.562)	(0.534)	(0.958)	(0.467)	(0.480)	(0.873)	(0.347)	(0.346)	(0.139)	(0.541)	(0.482)
ROA	0.001	0.001	0.001	0.001	0.001	0.001	– 0.000	– 0.000	– 0.000	0.000	0.000	0.000
	(0.917)	(0.813)	(0.762)	(0.064)	(0.089)	(0.097)	(0.033)	(0.047)	(0.055)	(0.489)	(0.609)	(0.633)
GDP growth per capita	0.002	0.001	0.001	0.002	0.002	0.002	0.002	0.001	0.002	0.002	0.002	0.002
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemployment	– 0.001	– 0.005	– 0.002	– 0.006	– 0.005	– 0.002	– 0.006	– 0.005	– 0.002	– 0.007	– 0.005	– 0.002
	(0.106)	(0.000)	(0.004)	(0.104)	(0.551)	(0.003)	(0.224)	(0.338)	(0.001)	(0.337)	(0.151)	(0.000)
DI	0.025	0.002	0.002	0.001	0.002	0.002	0.001	0.002	0.001	0.001	0.002	0.002
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
FDI of GDP	0.016	0.026	0.021	0.017	0.027	0.023	0.019	0.029	0.024	0.020	0.030	0.026
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Uncertainty	– 0.007	– 0.010	– 0.010	– 0.004	– 0.008	– 0.007	– 0.006	– 0.010	– 0.008	– 0.005	– 0.008	– 0.007
	(0.060)	(0.000)	(0.000)	(0.032)	(0.000)	(0.000)	(0.017)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Proportionality	– 0.009			– 0.010			– 0.010			– 0.010		
	(0.000)			(0.000)			(0.000)			(0.016)		
Court		0.002			0.001			– 0.001			0.001	
		(0.051)			(0.054)			(0.048)			(0.009)	
Accountability			– 0.002			– 0.005			– 0.006			– 0.005
			(0.000)			(0.000)			(0.000)			(0.000)
Observations	325,097	325,097	325,097	325,097	325,097	325,097	325,097	325,097	325,097	325,097	325,097	325,097
Country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

p values are reported in parentheses. Robust standard errors are clustered by firm.

Table 10 2SLS second-stage regression. The effect of populist ideology on firm investment with political orientation

DV: Firm investment	
Populist ideology	– 0.041
	(0.000)
Populist ideology × Right-wing	0.022
	(0.000)
Populist ideology × Left-wing	0.028
	(0.000)
Right-wing	– 0.009
	(0.000)
Left-wing	– 0.008
	(0.000)
Size	0.005
	(0.000)
ROA	– 0.003
	(0.025)
GDP growth per capita	0.001
	(0.000)
Unemployment	– 0.002
	(0.099)
DI	0.026
	(0.000)
FDI of GDP	0.002
	(0.000)
Uncertainty	– 0.002
	(0.318)
Observations	328,092
Country FE	Yes
Firm FE	Yes
Industry × Year FE	Yes

p values are reported in parentheses. Robust standard errors are clustered by firm.

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