



Populism, regime characteristics, and MNC location choice

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Abstract

Countries with populist governments are less attractive investment destinations for Multinational Corporations (MNCs), as foreign firms tend to be delegitimized and targeted as members of the outgroup. However, populist governments vary in the extent to which they delegitimize foreign firms as outsiders. Departing from the traditional right–left classification that masks key differences among political regimes, this paper investigates aspects central to populism and to how populist governments see foreign firms: business orientation and stance on immigration. Pro-business regimes perceive a greater role for private sector firms and are less likely to treat MNCs as members of the outgroup. However, regimes with a strong anti-immigration stance highlight threats to local identity and are more likely to treat MNCs as members of the outgroup. Using a dataset of over 23,000 foreign direct investments (FDI) across 61 host countries from 2008 to 2017, we find that the adverse effect of populism on FDI is diminished in pro-business regimes whereas it is amplified in regimes with strong anti-immigration stances. Furthermore, regime alignment between home and host countries reduces the negative impact of populist governments on FDI. Our research highlights the crucial role of regime characteristics in shaping FDI across populist governments.

Keywords Populism · Political risk · Institutional theory · Foreign direct investment · Location strategy

Introduction

Multinational companies (MNCs) choose where to locate and establish their operations based not just on a host country's formal institutional features, such as veto points in policymaking, but also the values and ideologies of the political regime (Duran, Kostova, & Essen van, 2017; Vaaler, 2008; Wang, Zhu, Chen, & Luo, 2021). In this regard, recent

research highlights the relevance of populist governments in a host country. Broadly, populist governments separate society into two homogeneous and antagonistic groups: “the people” as the ingroup and “the elite” as the outgroup (Hawkins, 2009; Mudde, 2004). Their goal is to limit the power of the outgroup while enhancing the conditions and privileges of the ingroup. To do so, populist governments systematically challenge or remove institutional safeguards and reject limits on the exercise of their own power, thereby generating institutional uncertainty for foreign firms (Abts & Rummens, 2007; Blake, Markus, & Martinez-Suarez, 2024; Devinney & Hartwell, 2020; Mudde & Kaltwasser, 2013). Beyond institutional uncertainty, we highlight how populist governments delegitimize foreign firms as part of the outgroup whose activities are undesirable or inappropriate (Blake et al., 2024). Characterized this way, foreign firms face legitimacy challenges and are less likely to invest in host countries with populist governments.

However, despite the declining attractiveness of countries led by populist governments, many foreign firms continue to invest, and populist governments do not uniformly reject foreign capital. We argue that a key factor for this paradox is the extent to which foreign firms are perceived by the host-country regime as part of the outgroup. Governments, even

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populist ones, vary dramatically in their priorities (Bennett, Boudreaux, & Nikolaev, 2023; Devinney & Hartwell, 2020) and have different economic, political, and social motivations to pursue varying political ends. We focus on differences in governments' regime characteristics and theorize about when they are likely to identify foreign firms as part of the outgroup and exacerbate or attenuate the negative effect of populist governments on foreign firms' location choice.

We move away from the traditional classification of political regimes as right-wing and left-wing, because the left–right scale not only masks important differences within each category but also generates some contradictions (see generally, Bennett et al., 2023; Blake et al., 2024; Sallai, Schnyder, Kinderman, & Nölke, 2023). Instead, we identify two aspects of a host-country political regime that are often conflated but that may affect foreign firms' group categorization differently: business orientation and stance on immigration. These two aspects are tightly linked to foreign firms' characteristics as “business actors” that “immigrate” from a foreign country and represent their country of origin. Deconstructing political regimes in this manner allows us to better isolate mechanisms related to populism and foreign investment and to determine whether and how different types of governments have different effects (either in magnitude or direction) on foreign investment.

In terms of business orientation, pro-business regimes—in contrast to anti-business regimes—see a greater role for private-sector firms in the economy and are generally more open and less restrictive to cross-border capital flows (Kastner & Rector, 2005; Sattler, 2013; Vaaler, 2008). Since they emphasize economic successes, they are more likely to see firms that contribute to the local economy as part of the ingroup, even if they are foreign. Indeed, they may even seek out foreign firms to further their agenda. Thus, pro-business regimes are less likely to delegitimize foreign firms, thereby reducing the adverse effects of populism on a location's attractiveness as an investment destination.

On the other hand, we argue that a regime's stance on immigration has a different and independent effect. Regimes that strongly oppose immigration into a country—compared to those that are pro-immigration—are more likely to treat foreign firms as outsiders, characterizing them as carriers of norms different from those of “the people” in a country (Mudde & Kaltwasser, 2013). Anti-immigration regimes often portray these firms as cultural outsiders that threaten local identity, especially when they rely on immigrant labor or import foreign management practices. Under such regimes, foreign firms are more likely to face legitimacy challenges and to be treated as part of the outgroup, thereby increasing the adverse effects of populism on a location's attractiveness as an investment destination.

In addition, we also expect the investing firm's home-country political regime to shape its treatment in the host

country. Because foreign firms are also symbolic representatives of their home countries, we argue that governments tend to favor firms from countries with aligned regime characteristics, treating them as part of the ingroup while subjecting firms from misaligned regimes to greater scrutiny or exclusion. As a result, when regimes share similar views on businesses and immigration, foreign firms are less likely to be perceived as outsiders, reducing the deterrent effect of populist governments on investment.

We empirically test our hypotheses using a sample of 23,795 realized foreign investments from 2008 to 2017 by 5187 firms from 77 home countries into 61 host countries. We compare this with 86,492 counterfactual investments that firms could, but did not, undertake. Using binomial generalized linear models with firm fixed effects, our results suggest that a firm is 28% less likely to invest in a country with a highly populist government (approximately one standard deviation above the mean) than in a country with a less populist government (mean level of our sample). Consistent with our proposed hypotheses, the negative effect of a populist government on a foreign firm's likelihood of investing in the country is weaker when the host-country regime is more pro-business. Surprisingly, we find that when a regime is extremely pro-business, the business-friendliness of extremely business-oriented regimes outweighs the negative effect of populism. By contrast, the adverse effect of populist governments on foreign firms' investment likelihood is magnified when host-country regimes have an anti-immigration stance. Importantly, our results also indicate that the economic effect of a regime's anti-immigration stance is less pronounced than that of a regime's pro-business orientation. In addition, the negative effect of populist governments on a firm's investment likelihood is attenuated under higher alignment between home- and host-country regimes.

Our work contributes to recent literature in three ways. First, we highlight and examine a different pathway for populism's effect on foreign firms' investment strategy. While previous studies have focused primarily on how populist governments increase institutional uncertainty (Bennett et al., 2023; Carballo Perez & Corina, 2024; Corina, Hartwell, & Carballo, 2025; Hartwell, James, Lindner, Müllner, & Vaaler, 2024), we focus on a fundamental characteristic of populist governments related to the outsidership and legitimacy challenges for foreign firms. Second, building on the “varieties of populism” approach (Devinney & Hartwell, 2020), we identify key aspects of how a host-country regime characterizes the outsidership of a foreign firm: business orientation, stance on immigration, and alignment with home-country regimes. Thus, we offer a better understanding of how different types of regimes and their alignment play a role in foreign firms' location decisions. Finally, our work extends the broader literature of political risk and location choice (e.g., Henisz, 2000; Henisz &



Zelner, 2005). Traditional research in this stream focuses on structural factors that contribute to political risk, particularly a lack of checks and balances or veto players in the policy-making process. Our work, by contrast, builds on research on regime characteristics and demonstrates that different political actors have varying political motives to intervene in a foreign firm's investment or operations. Political risk is not the same for all MNCs; it depends on which firms the regime categorizes in the ingroup and which in the outgroup, and MNCs therefore need to consider how populists actively shape the boundaries between ingroup and outgroup.

Theory and hypotheses

Scholars of international business have long focused on how variation in political institutions influences cross-border business (e.g., Berry, Guillén, & Zhou, 2010; Murtha & Lenway, 1994). When host-country governments face strong checks and balances, that is, with veto players in the policy-making apparatus who can block policy change, a country's policies take on a status quo bias which, in turn, leads to policy stability. Under these circumstances, foreign firms can operate with more credible assurances that policies will not change after entry (Henisz, 2000; Jensen, 2008).

Although this structural approach is well grounded, it only reflects the feasibility of policy change without offering a theoretical explanation of a government's preferences and its willingness to intervene in a foreign firm's investment (see also Stevens, Xie, & Peng, 2016). In other words, the structural approach assumes host governments to be indifferent among various policy choices: they will alter policies affecting foreign firms to the extent that checks and balances in the system allow. This assumption is limiting because political parties that constitute a government have distinct political incentives that drive them to prioritize vastly different behaviors within a given framework. Political values and ideologies shape a regime's policy preferences along many dimensions, including on foreign investment (Cuervo-Cazurra, Duran, Arregle, & Essen van, 2023; Vaaler, 2008; Wang, et al., 2021).

We focus on the presence of populist governments—those formed by populist parties. As Devinney and Hartwell (2020: 33) note, the upsurge in populism is a “key feature of the current political environment” including a diversity in ideological positions that increase risks for firms. Most commonly, populism is considered to be a political stance that assumes politics should be an expression of the general will of “the people”—who are perceived to be a single, homogeneous, and authentic group. Populist governments claim to speak for “the people” against “the elite,” whom they characterize as corrupt, acting out of self-interest, and limiting the expression of the will of “the people” (Feldmann & Morgan,

2022; Nyberg & Murray, 2023). By claiming to represent “the people” against “the elite,” populists exacerbate cleavages within the country, identifying insiders and outsiders.¹

The primary proclaimed objective of populist governments is to enhance the conditions and privileges of the perceived ingroup, often at the expense of marginalizing or disadvantaging the outgroup. One avenue is through short-term policy bias and de-institutionalization. Populist governments progressively weaken institutional safeguards and procedures for governance (Blake et al., 2024; Devinney & Hartwell, 2020; Mudde & Kaltwasser, 2013) and reject any limits on the exercise of their own power as undermining the popular will of the ingroup. They further contend that the outgroup cannot be overcome through the same system that favored their rise. Thus, populists systematically challenge or remove institutional safeguards such as veto points, separation of powers, the presence of independent media, and the influence of experts. On the other hand, populists will open the door for extensive policy changes designed to benefit the ingroup even if those policies entail significant long-term costs (Mudde & Kaltwasser, 2013). Consequently, populism entails an erosion of domestic institutions (Huber & Schimpf, 2016), leading to higher uncertainty, which makes foreign firms less likely to invest in a populist country (Carballo Perez & Corina, 2024; Corina et al., 2025).

The focus on institutional quality, however, gives limited attention to an alternative mechanism through which foreign firms may be affected by populist governance, namely the construction of boundaries that differentiate between insiders and outsiders. In the following section, we theorize how the delegitimization of foreign firms as outsiders creates challenges for foreign firms beyond the decline in institutional quality.

Populism, legitimacy, and MNC location choice

A key feature of populist governments is the separating of actors into two camps – insiders and outsiders. They emphasize cleavages between insiders (“us” or “the pure people”) and outsiders (“them” or “the corrupt elite”), leaving little scope for neutrality or nuance in how key socioeconomic actors are perceived (Blake et al., 2024: 531). However, as

¹ The ingroup-versus-outgroup narrative central to populism is also shared with a related but distinct concept—nationalism (e.g., Choudhury et al., 2025; Edman et al., 2024). However, the two are distinct, with different dimensions that emphasize cleavages within society: people versus elites (populism) and domestic versus foreign (nationalism). Although populist governments sometimes emphasize the interests of domestic actors at the expense of foreign ones, it is not always the case. Thus, a government could be populist but not nationalist. Similarly, while protectionism draws attention to a distinction based on nationality (domestic industry/firms vs. foreign competitors), populist governments are not always protectionist.



a thin-centered ideology, there is not a clear prescription of what the substantive identity of “the people” must be (Abts & Rummens, 2007). As a result, populism is highly adaptable, identifying different cleavages in society based on characteristics such as class, culture, economics, national identity, or ethnicity (Blake et al., 2024; Mudde, 2004; Rašković, Haynes, & Vangeli, 2024). This flexibility in defining who belongs to “the people” or “the elite” also extends to how populist governments construct insider–outsider distinctions in relation to foreign economic actors.

Foreign firms, typically large and powerful entities, are frequently cast by populist governments as part of “the elite” whose economic power and global reach set them apart from “the people,” positioning them as contributors to the prosperity of entrenched elites (Blake et al., 2024). Populist governments promote the idea that foreign firms could work against the interests of a country’s people or domestic industry (Mudde & Kaltwasser, 2017; Nyberg & Murray, 2023). Singling out foreign firms is a useful strategy to mobilize the ingroup and garner support. Indeed, a backlash from a foreign actor can be a credible signal that political leaders share the domestic audience’s preferences (Matush, 2023). Consequently, populist governments often target these firms as powerful outsiders, and characterize their activities as undesirable or inappropriate. Presented in this manner, foreign firms encounter challenges to their legitimacy. As other scholars have already noted, legitimacy is linked with foreign firms’ political risk (Henisz & Zelner, 2005; Kostova & Zaheer, 1999; Stevens et al., 2016). Consequently, we begin our theoretical argument from the baseline prediction that a country with a populist government is less attractive as an investment location.

Hypothesis 1(Baseline): The greater the representation of populist parties in a host country’s government, the lower the likelihood of a foreign firm locating its investments in the country.

MNC legitimacy and regime characteristics

While populist governments are likely to delegitimize foreign firms as outsiders on average, there is nonetheless considerable variation in the extent to which they do so across governments. Some create challenges for MNCs. For example, Hugo Chavez’s government in Venezuela nationalized the assets of foreign oil companies, characterizing it as “an act of sovereignty, for our people” (Ellsworth, 2007). On the other hand, foreign firms may also face fewer challenges, sometimes even being empowered and courted. The administration of Javier Milei in Argentina, for instance, undertook legislative reforms to offer major incentives for foreign companies investing there (Calatrava, 2024).

An important avenue for inquiry is thus to assess the extent to which populist governments view foreign firms as part of the ingroup or the outgroup, a distinction that we argue is fundamentally shaped by regime characteristics. Across the world, political regimes—even populist ones—vary dramatically in their objectives and priorities. Given different economic, political, and social objectives, regimes pursue different policies and actions (Aguilera, Duran, Heugens, Sauerwald, Turturea, & VanEssen, 2021; Cuervo-Cazurra et al., 2023; Duran et al., 2017).

Most commonly, researchers have differentiated between right-wing and left-wing regimes (e.g., Bennett et al., 2023; Blake et al., 2024; Sallai et al., 2023). However, such a simplified binary categorization masks variation in regime characteristics across multiple dimensions. Specifically in the study of populist governments’ perception of foreign firms, considering only the broad distinction between left- and right-wing regimes can lead to misleading characterizations. For example, as Devinney and Hartwell (2020) identify, Italy’s Silvio Berlusconi and Roberto Duterte of the Philippines were both proponents of a right-wing ideology that emphasized liberal economic policies and deregulation. However, these two governments had opposing views on immigration, with the former exhibiting an anti-immigration stance and the latter a pro-immigration one. Additionally, prior research has not been consistent in the characterization of right- and left-wing populist governments. For example, whereas some authors classified the Hungarian regime of Viktor Orban as right-wing populist (Blake et al., 2024), others noted that this government was economically left-leaning, broadly supporting nationalization of key industries and a restriction of foreign ownership (Devinney & Hartwell, 2020).

Our goal is not to adjudicate between the different coding efforts of right- versus left-wing populist governments. Instead, we argue that a populist government’s effect on foreign firms can be better identified by deconstructing political orientations and identifying relevant attributes that characterize political regimes. This allows us to better isolate the mechanisms related to foreign firms being categorized as part of the ingroup or the outgroup and its consequences for foreign investment.

We focus on those aspects of political regimes that are particularly relevant in the context of foreign firms. By their very nature, foreign firms are not only a “business” entity but also a foreign entity that is “immigrating,” so to say, to the investment country and representing their country of origin. Thus, we argue that for understanding the in- and outgroup identification of foreign firms under populist governments, it is essential to consider two relevant regime characteristics: business orientation and stance on immigration. These characteristics also align with prior research on the varieties of populism (Devinney & Hartwell, 2020; Hartwell



& Devinney, 2024; Meijers & Zaslove, 2021).² Writing about the different types of populism, Hartwell and Devinney (2024) argue that the clearest manifestation of populist divergence is in whether a regime is anti- or pro-business. Additionally, the stance on immigration is viewed as the most common force seen in populist rhetoric (Devinney & Hartwell, 2020: 54). Along both these dimensions, however, there is considerable variation across populist governments.

Business orientation

Political regimes have distinct partisan economic objectives that they would prefer to pursue (Aguilera et al., 2021; Duran et al., 2017). In general, there are two archetypes of regimes, pro-business and anti-business. They have different conceptualizations of the state–market relationship and differ in the extent to which they believe the state should play a role in the economy. For anti-business regimes, the state plays an active role in the economy. They prioritize wealth redistribution and intervene in the economy through higher taxes and more regulation. They worry about how labor—their key constituency—is adversely affected by big businesses and foreign investors. On the other hand, pro-business regimes emphasize a reduced role for the state in the economy. If they intervene, they choose policies that benefit capital (rather than labor) and focus on reducing regulation, lowering taxes, or privatizing state-owned assets. They elevate national entrepreneurs and target bureaucrats.

We argue that the extent of outsidership that foreign firms face under populist governments is different in pro- and anti-business regimes (Blake et al., 2024; Stöckl & Rode, 2021). Anti-business regimes are especially prone to portraying foreign firms as actors that endanger workers, frequently framing them as contributors to declining labor standards or wage pressures. Such regimes are therefore more likely to characterize foreign firms as a part of “the elite.” Once foreign firms are depicted in this way, their legitimacy becomes more vulnerable, exposing them to intensified scrutiny and more stringent regulatory barriers. Pro-business regimes,

on the other hand, prioritize economic success. Firms that contribute to economic success—whether domestic or foreign—are more likely to be treated as part of the ingroup. Such regimes are less likely to characterize foreign firms as part of “the elite” and may even refer to them as supporting the local economy and uplifting “the people.” Hence, we argue that the presence of pro-business regimes will lead to a lower likelihood of foreign firms being perceived as part of the outgroup, thereby weakening the adverse effects of populism on a location’s attractiveness as an investment destination for foreign firms.

Hypothesis 2: The negative relationship between populism in a host country’s government and a foreign firm’s investment probability is weaker under pro-business regimes.

Stance on immigration

Regimes with a high anti-immigration stance tend to exhibit heightened national parochialism, often portraying foreigners, whether people or firms, as cultural outsiders who threaten national identity (Feldmann & Morgan, 2022; Mudde & Kaltwasser, 2013; Van Prooijen, Krouwel, Boiten, & Eendebak, 2015). Regimes with an anti-immigration stance are more likely to focus on the foreignness of firms as extensions of unwanted influence. For example, they might focus on foreign firms because they are more dependent on immigrant workers from their home countries, especially when a foreign firm is from a culturally distant home country (Morales, 2025). In addition, foreign firms transplant their different management practices to the host country, including those related to people management and human resources (Bound et al., 2017; Siegel, Pyun, & Cheon, 2019).

As a result, we argue that populist governments with a high anti-immigration stance are more likely to cast foreign firms as part of “the elite” that challenges the nation’s cultural identity. Populist governments under such regimes will leverage the expression of foreign firms as a perceived threat to local community, culture, and identity to further delegitimize foreign firms as part of the outgroup. They are more likely to highlight foreign firms as not just investors but as carriers of foreign norms and values that may clash with the ideals of “the (local) people.” By contrast, populist governments with a low anti-immigration stance are less likely to emphasize cultural outsidership of foreign firms and are more likely to simply treat them as commercial investors.

Taken together, populist governments with an anti-immigration stance are more inclined than their pro-immigration counterparts to portray foreign firms as misaligned with the host country’s cultural and societal interests. They will play up rhetoric about societal cleavage, further distinguishing between “the people” and outsider foreign firms who

² Devinney and Hartwell (2020) identify three areas at the intersection of populist agendas and international business: globalization, immigration, and multilateralism. However, except for the United States, the majority of regimes are multilateralists. Since this dimension has limited variation, we do not consider it in our analysis. Additionally, in subsequent work, they clarify that regardless of their attitude toward globalization, populists can be pro- or anti-business (Hartwell & Devinney, 2024). Meijers and Zaslove (2021) similarly discuss six dimensions of populism: left-right economic, immigration, European integration, nativism, civil liberties versus law & order, traditional vs. liberal lifestyle. We focus on the first two because the latter dimensions do not directly relate to foreign firms’ legitimacy. Nativism has a high correlation with immigration (−0.941).



threaten the local community. Foreign firms are cast as undesirable outsiders whose activities are inappropriate for the national context, which in turn undermines their legitimacy and exposes them to targeted scrutiny. We therefore contend that regimes emphasizing an anti-immigration stance will exacerbate the adverse effects of populist governments on a location's attractiveness as an investment destination for foreign firms.

Hypothesis 3: The negative relationship between populism in a host country's government and a foreign firm's investment probability is stronger under political regimes that oppose immigration.

Regime alignment

Since foreign firms are not only economic actors but also symbolic representatives of their home countries, we examine how their outsidership is shaped by the alignment between home- and host-country regimes. Even beyond the firm's capabilities and practices, prior research has argued that political affinity between a firm's home and host countries is a key determinant of the firm's legitimacy in a foreign market (Hasija, Liou, & Ellstrand, 2020). When they are aligned, foreign firms are less likely to be targeted in the host country (Bertrand, Betschinger, & Settles, 2016), and the host country regime may even support firms' investment intentions (Hasija et al., 2020).

We similarly argue that a populist government's identification of a foreign firm is shaped by the perceived alignment between the firm's home- and host-country regimes regarding whom they classify as part of the ingroup and the outgroup. Aligned regimes actively foster and showcase their solidarity and affinity for each other. They call out other regimes that they perceive to share similar business orientation or immigration stances. For example, the Hugo Chavez government in Venezuela highlighted the deep economic and social connections with the Cuban government by declaring that "deep down, we are one single government, one single country" (The Economist, 2021). At the same time, pro-business regimes, referring to themselves as "cousins," regularly meet at the Conservative Political Action Conference (CPAC) (The Economist, 2024).

Consequently, firms from aligned countries may be welcomed, whereas those from misaligned countries are treated as part of the outgroups. According to Sallai et al., "populist governments may specifically attract foreign direct investments from countries governed by like-minded forces" (2023: 51) and "actively seek investment from countries considered to be ideologically aligned" (2023: 50). Hence, alignment becomes a critical factor in shaping the perception of foreign firms. We therefore argue that the more the home- and host-country regimes are aligned in their business

and immigration orientation, the less likely populist governments perceive the foreign firm as an outsider, reducing the risk that the firm will be cast as misaligned with national interests and subjected to weakened legitimacy and targeted scrutiny. Consequently, the entry-detering effect of populist governments on a firm's likelihood of investment is lowered. Thus,

Hypothesis 4a: The negative relationship between populism in a host country's government and a foreign firm's investment probability is weaker the more aligned the business orientation between the firm's home-country and host-country regimes.

Hypothesis 4b: The negative relationship between populism in a host country's government and a foreign firm's investment probability is weaker the more aligned the stance on immigration is between the firm's home-country and host-country regimes.

Data and methods

Sample

To assess the effect of populism on firms' foreign investment-location decisions, we gathered data from three main sources: (a) Orbis Crossborder Investment database and fdiMarkets for project-level data on FDI, (b) Orbis and Orbis Historical databases for firm-level data, and (c) the V-Dem database for populism and political characteristics data. Using the fdiMarkets and Orbis Crossborder Investment databases, we first identified 170,549 announced foreign greenfield investments by 17,446 firms between 2008 and 2017. We matched investments with firm-level and country-level control variables as discussed below. After dropping transactions with missing data, our sample of foreign investments includes 23,795 cross-border investments by 5187 firms.³ Investing firms come from 77 different home countries. They invested in 61 target countries. Table 1 shows the most common dyads for the realized FDI project in our sample. Unsurprisingly, the most common dyad is USA–China (816 investments), followed by UK–USA (742) and Germany–USA (613). Firms in our sample come from 309 industries (Retail trade [14%], Wholesale [10%], and Other services [9%] are the three largest industries, followed by Machinery, Equipment, Furniture, and Recycling [6%],

³ These observations include cases where a single firm invests in a foreign country more than once per year. We treat such cases as separate investments in our main analysis. Our results are robust to alternative treatments.



and Business Services [5%]). Investments occurred between 2008 and 2017, peaking in 2013 (22%).

To create the final sample for our empirical analysis, we identified a risk set of potential host countries that a given firm could have invested in but did not (counterfactual observations). This set included all countries in the same subregion (defined by the UN) as the host country (e.g., when a firm makes an investment in France, all other Western European countries are indicated as counterfactuals). To the extent that countries in a subregion share similarities in characteristics such as infrastructure, labor costs, and level of development, they are a realistic alternative investment location. Based on this, the average number of counterfactual host countries in our sample is 3.6. This seems reasonable, as most companies consider only a handful of alternative countries in their final investment-location decision. Based on this approach, our final sample in the main analysis

consists of 110,287 firm–host country–year observations. In additional analysis, we consider alternative groups of counterfactual countries.

Measures

Dependent variable

The dependent variable is a dummy that represents whether a firm invested in a given host country in a particular year (1) or not (0). Approximately 22% of firm–host country–year observations were coded 1.

Independent variable

The main independent variable is the presence of a populist government, captured by the political power of populist

Table 1 Most common investment dyads

Rank	Source country	Destination country	Investments	Destination mean populism score
1	United States of America	China	816	0.37
2	United Kingdom	United States of America	742	0.16
3	Germany	United States of America	613	0.16
4	United States of America	Germany	603	0.07
5	United States of America	India	567	0.25
6	Japan	United States of America	504	0.16
7	France	United States of America	460	0.16
8	United States of America	Canada	443	0.26
9	Germany	China	430	0.37
10	Japan	China	347	0.37
11	United States of America	Mexico	306	0.04
12	France	China	305	0.37
13	Japan	India	301	0.25
14	Italy	United States of America	291	0.16
15	United Kingdom	Germany	275	0.07
16	Japan	Germany	272	0.07
17	Sweden	United States of America	268	0.16
18	United States of America	Brazil	253	0.19
19	United States of America	Australia	220	0.14
20	Japan	Mexico	214	0.04
21	Spain	United States of America	206	0.16
22	United Kingdom	China	201	0.37
23	Germany	India	194	0.25
24	United Kingdom	India	189	0.25
25	France	Germany	186	0.07
26	United States of America	Poland	185	0.24
27	Switzerland	United States of America	184	0.16
28	United States of America	Japan	178	0.14
29	Italy	Germany	171	0.07
30	Spain	Mexico	169	0.04

parties in government in a given country and year (*Populism score*). Our measure is calculated in two steps. First, we use the V-Dem data on political parties' populism score for our analysis (Lührmann et al., 2020). Using expert opinions, this database codes information about different political parties across countries over a long period.

V-Dem calculates each party's populism score (p_i) for each year using the formula below.

$$p_i = \frac{2}{\frac{1}{x_i} + \frac{1}{y_i}}$$

In this formula, i indexes a political party and x and y refer to the degree of anti-elitism and people-centrism, respectively. Anti-elitism relates to the extent of a political party's rhetoric that attacks (corrupt) elites. It is captured by the question "How important is anti-elite rhetoric for this party?" People-centrism captures the extent to which leaders of a political party glorify "the people." It is captured by the question "Do leaders of this party glorify the ordinary people and identify themselves as part of them?" The resulting measure ranges from 0 to 1. The higher the score, the higher the degree of populism of a given political party.

Second, we complement the V-Dem data with the seat share based on the latest election result, and whether the given party is part of the government as indicated in the "Elections Global" dataset (Döring & Düpont, 2020). Our final measure is the *Populism score* for each country and year as the sum of the product of the populism scores on party level in a year (p_i) with the respective seat share in parliament of the party (s_i) and a dummy variable (g_i) that represents whether the party is in government ($g_i = 1$) or opposition ($g_i = 0$).

$$\text{Populism score} = \sum p_i \times s_i \times g_i.$$

The resulting variable scales between 0 and 1, with 0 indicating low and 1 indicating high levels of populist governments. The average of the *Populism score* in a target country in our data is 0.253 (approximately Ireland in 2018), with substantial range from zero (e.g., Sweden in 2015) to 0.830 (e.g., Colombia in 2010).

Moderating variables

To evaluate H2, we include a measure of a political regime's business orientation based on how they assess the state–market relationship. We construct this variable using data from V-Dem on political parties' stance on the role of the state in the economy. As noted in this dataset, some political parties emphasize an active role for the state. This includes higher taxes, more regulation and government spending, and a more generous welfare state. At the other end, some parties

emphasize a reduced economic role for government: privatization, lower taxes, less regulation, less government spending, and a leaner welfare state. This corresponds to higher business orientation.⁴ Similar to the *Populism score* variable (for H1), we first identify each political party's business orientation in a given country from the V-Dem Party dataset. We then aggregate the party-level business orientation (l_i) to the country level using each party's seat share (s_i) and a dummy that represents whether that party is in government ($g_i = 1$) or opposition ($g_i = 0$). The formula for computing business orientation follows the same logic as the formula for *Populism score* above.

$$\text{Business orientation} = \sum l_i \times s_i \times g_i.$$

The resulting variable ranges from 0 to 5, with higher scores indicating a stronger business orientation of a regime. In our sample, the average business orientation of a political regime is just above 3, which indicates economic center-to-right politics.

To evaluate H3, we include a political regime's anti-immigration score in a given country-year. We proceed along the same lines as for H2, again building on the V-Dem project's characterization of political parties, and their vote shares as well as government participation. In particular, we rely on responses to the question "What is the party's position regarding immigration into the country?" Responses to this question range from 0 to 4 and include strongly oppose, oppose, ambiguous/no position, supports, strongly supports. We reverse-code this variable such that the higher the score, the more anti-immigration the political regime.

We then aggregate this party-level score (i_i) to the country level using each party's seat share (s_i) and a dummy that represents whether that party is in government ($g_i = 1$) or opposition ($g_i = 0$). The formula for computing anti-immigration scores again follows the same logic as the formula for the *Populism score* above.

$$\text{Anti-immigration} = \sum i_i \times s_i \times g_i.$$

In our data, the average anti-immigration score of a political regime is 1.9, which indicates moderate anti-immigration sentiment.

To assess whether our moderators are capturing distinct dimensions different from the host country government's *Populism score*, we graphed scatterplots of the two moderating variables (business orientation and anti-immigration) against the *Populism score* on the country-year level

⁴ This variable is referred to as the "economic left–right" scale in the V-Dem database. It focuses only on economic issues, and not on other attributes such as social and cultural issue, or law and order. Thus, it maps well to our construct of business orientation.

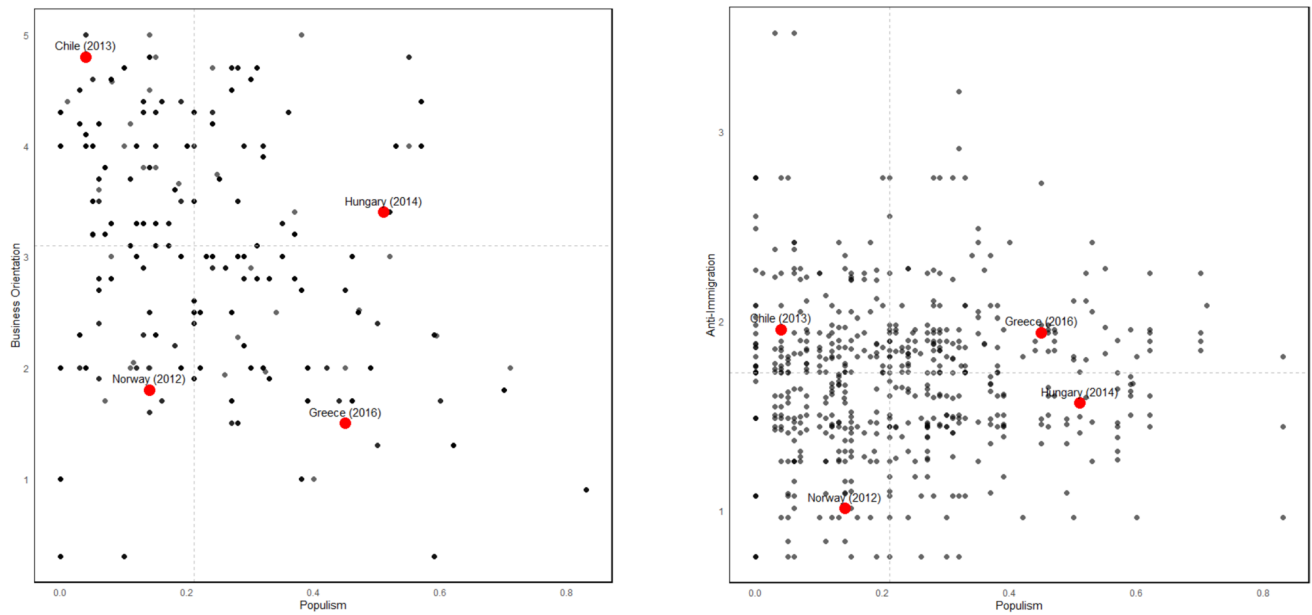


Fig. 1 **A** Scatterplot of business-orientation score against *Populism* score. **B** Scatterplot of anti-immigration score against *Populism* score. Note Data on country-year level. Dashed lines indicate variable medians on the country-year level

(Fig. 1).⁵ In each panel, the dashed lines indicate median values. We can see a slight negative (about minus 0.26) correlation in the left panel of Fig. 1 (populism against business orientation). Populism and anti-immigration are almost perfectly orthogonal (correlation of 0.01).⁶ In addition, all quadrants are well populated, indicating that governments with both high and low *Populism* scores can have low versus high values of business orientation and anti-immigration. Overall, the two panels suggest that the moderating variables are quite orthogonal to the main independent variable, *Populism* score.

Figure 1 also provides some descriptive information about which countries are examples for the respective quadrants with regard to populism and the two regime characteristics. Note that the selection is made for stereotypical countries, not because these countries are in any way representative of the sample (in particular, note that the correlation between business orientation and anti-immigration stance is close to zero, as shown in Figure 2). In our sample, countries like Hungary (2014) and Greece (2016) have relatively high levels of populism score (0.5 and 0.45, respectively). By contrast, countries like Norway (2012) and Chile (2013) have

lower levels of populism score (0.14 and 0.04, respectively). In addition, these countries also display remarkable differences in their business orientation and anti-immigration scores. Among countries with low levels of populism scores, Chile (2013) is an example of a country with a high business orientation (4.8) and a high anti-immigration stance (2.0). By contrast, Norway (2012) has a low business orientation (1.8) and a low anti-immigration score (1.4). Countries with high levels of populism scores also exhibit significant variation. Hungary (2014) and Greece (2016) have similar anti-immigration stances (1.8 and 1.9, respectively) but differ in their business orientations (3.4 and 1.5, respectively).

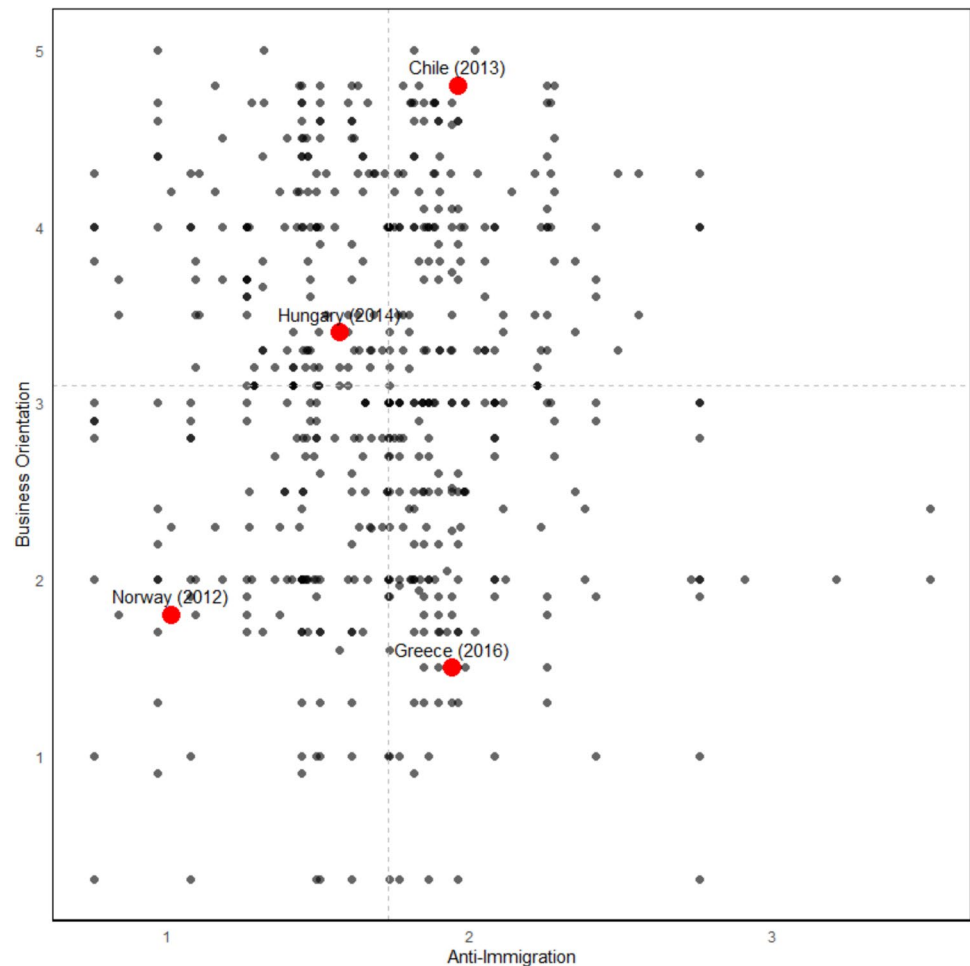
Even more at the center of our line of reasoning is that we can distinguish between the two regime characteristics: business orientation and anti-immigration. To assess this, we examine the scatterplot of business orientation versus anti-immigration (Fig. 2). The descriptive data in Fig. 2 highlights two important points about our line of reasoning. First, the two variables are indeed separate and there is relatively little overlap, with a pairwise correlation of minus 0.04. Second, the data contain almost the full spectrum of both variables. There are regimes with a high (above median) business orientation but a low (below median) anti-immigration stance, regimes with a high business orientation and a high anti-immigration stance, regimes with a low business orientation and a high anti-immigration stance, and regimes with a low business orientation and a low anti-immigration stance.

To evaluate H4, we construct a measure at the country-year level of home–host alignment, based on the measures

⁵ Because we used the country-year as the unit of observation for these plots, the mean values are slightly different from the investment-level values we report in summary statistics.

⁶ Note that the V-Dem dataset has more year-on-year changes to the anti-immigration score than to the business orientation score, which is why the right panel in Fig. 1 appears to have more observations than the left panel.

Fig. 2 Scatterplot of anti-immigration score against business orientation. *Note* Data on country-year level. *Dashed lines* indicate variable medians on the country-year level



we use to test H2 and H3. To construct the measure, we take the absolute value of the difference between the business orientation score and the anti-immigration score for the home- and the (hypothetical) host-country regimes. In some of our analyses, we construct an alignment index that is calculated as the average of the two home–host alignment scores. We also include results for individual components of this alignment. The average alignment index takes a value of 2.3, which indicates—unsurprisingly—a moderate level of alignment between home and (potential) host countries. In our regression analyses, we center the variables of interest (H1–H4) to have a mean of zero.

Control variables

We include a parsimonious set of firm-level and host-country-level control characteristics that are relevant to firms' location decisions. At the firm level, this includes firm size represented by the number of employees, operating revenue (in million USD), net income (in million USD), the equity ratio, experience of the company in a target country (number of years a company had a subsidiary in the target country

within our sample), and the general international experience a company has (the sum of the experience variable across all target countries).⁷ At the host-country level, we include FDI as a share of the gross domestic product (FDI as share of GDP), GDP per capita, whether a bilateral investment treaty was in force between the home and the host countries, and the target country's political constraints on policymaking (POLCON score). All control variables are lagged by one year and standardized. In robustness checks, we use alternative sets of control variables and find consistent results. The variables in our study are summarized in the Online Appendix Table OA1 and the correlations are shown in Table OA2.

Empirical strategy

Our empirical strategy follows prior literature investigating location choice by comparing investment opportunities

⁷ Given our substantial data constraints, the average firm in the sample is quite large, with a net income of about 1 billion USD, operating revenue of 14 billion USD, and 50,000 employees.



(counterfactuals) with the actual investment (see, for example, Li, Hernandez, & Gwon, 2019; Zhou & Guillén, 2015). Our estimation takes the following form:

$$FDI_{ijt} = \beta_0 + \beta_1 \cdot \text{firm controls}_{ijt-1} \\ + \beta_2 \cdot \text{country controls}_{jt-1} \\ + \beta_3 \cdot \text{populism score}_{jt-1} + u_i + \epsilon_{ijt}.$$

where investing foreign firm i invests in host country j in year t . Our main specifications use binomial models with a firm fixed effect to exclude bias from unobserved company, industry, and home-country characteristics. We run alternative fixed-effect structures in robustness checks and find consistent results. We also present results from conditional logit models in robustness checks, which provide statistically equivalent findings to the more parsimonious results we present in the main analyses. To investigate H2, H3, and H4, we include interactions of the *Populism score* with the business orientation score, anti-immigration score, and home–host alignment. We use the *feglm()* command from the *fixest* package⁸ (Bergé, 2018) in R for estimating fixed-effects models.

$$FDI_{ijt} = \beta_0 + \beta_1 \cdot \text{firm controls}_{ijt-1} \\ + \beta_2 \cdot \text{country controls}_{jt-1} \\ + \beta_3 \cdot \text{populism score}_{jt-1} \\ + \beta_4 \cdot \text{populism score} * \text{business orientation}_{jt-1} \\ + \beta_5 \cdot \text{populism score} * \text{anti-immigration}_{jt-1} \\ + \beta_6 \cdot \text{populism score} * \text{alignment}_{ijt-1} + u_i + \epsilon_{ijt}.$$

Results

We present the main results for the test of H1 in Table 2. In Model 1, we include all the firm- and country-level control variables. In Model 2, we add the *Populism score*. As we predicted in H1, the coefficient of the *Populism score* is negative ($\beta = -0.278$, $p = 0.001$). Notably, this result is on top of and controlling for the (positive) effect of POLCON on investment probability ($\beta = 0.410$, $p = 0.001$). The coefficient of the *Populism score* represents an odds ratio of 0.72. A one-standard-deviation increase in the *Populism score* translates into a reduction in investment odds of approximately 28%. In other words, a firm is 28% less likely to invest in a highly populist country like Mexico in 2012 (which is approximately one standard deviation above

the mean in our sample) than in Chile in 2009 (which is approximately at the mean of our sample).

We next explore the robustness of this main effect to different model specifications. In Model 3, we use a two-way fixed-effects setup with target-country and year fixed effects. The coefficient of H1 remains statistically equivalent to our main specification (Model 2). In Model 4, we include a two-way fixed-effects design and replace the main *Populism score* variable with a dummy that identifies high levels of populism (*Populism score* is larger than one standard deviation above the mean in the host country). The logic for using this model is as follows. In an ideal world, we would be able to build a quasi-natural experiment by identifying countries that are exogenously “treated” with a populist government. Unfortunately, such an identification strategy does not work in our case, among other things because populism does not emerge spontaneously and because it exists in degrees, with unclear cutoffs. Instead, the high-populism dummy proxies for the treatment (following an estimation approach suggested in Wooldridge, 2025). The results in Model 2 are consistent with our main specification.

In Model 5 of Table 2, we get as close as possible to the exogenous “treatment” model. We use the election data from the V-Dem dataset to identify when each target country held elections. We include a dummy indicating whether an election took place in the year before investment. Then, we add another dummy indicating whether *Populism score* is high in the target country (one standard deviation above the mean). The coefficient of the interaction of the election dummy and the high-populism dummy ($\beta = -0.301$, $p = 0.001$) indicates that the likelihood of FDI following an election where a government with a high *Populism score* came to power is substantially less than when no election happened or the election led to a low *Populism score*.

In Model 6 of Table 2, we include a conditional logit model (conditioning on the possible investment locations), which some prior literature has used to capture location-choice decision (e.g., Buckley, Chen, Clegg, & Voss, 2018). While no clear standard has yet emerged, we believe it is important to show that results in this paper are robust to the choice of estimation method. Model 6 in Table 2 shows that the effects of populism on investment probability are similarly negative in a conditional logit model as in our main model (Model 2 in Table 2).

Our theoretical mechanism linking the presence of populist governments and the likelihood of FDI is based not just on the idea that populism lowers institutional quality but also that populist governments delegitimize foreign companies as part of the outgroup and make it more challenging for them to operate in the host country. To assess the latter mechanism, we delve deeper into the investment challenges faced by foreign firms in countries with populist governments as well as their perception of an investment location's

⁸ The package is available from CRAN here: <https://cran.r-project.org/web/packages/fixest/index.html>.



Table 2 Populism and foreign firm investment

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Intercept			– 1.431 (<i>p</i> = 0.001)	– 1.485 (<i>p</i> = 0.001)	– 1.364 (<i>p</i> = 0.001)	
Populism score (H1: -)		– 0.278 (<i>p</i> = 0.001)	– 0.392 (<i>p</i> = 0.001)	– 0.941 (<i>p</i> = 0.001)		– 0.296 (<i>p</i> = 0.001)
High populism					– 1.205 (<i>p</i> = 0.001)	
Election in prior year					0.025 (0.206)	
High populism * election					– 0.301 (<i>p</i> = 0.001)	
FDI per GDP	– 0.051 (<i>p</i> = 0.001)	– 0.053 (<i>p</i> = 0.001)	– 0.027 (<i>p</i> = 0.001)	– 0.029 (<i>p</i> = 0.001)	– 0.089 (<i>p</i> = 0.001)	– 0.025 (<i>p</i> = 0.001)
GDP per capita	0.000 (<i>p</i> = 0.001)	0.000 (<i>p</i> = 0.078)	0.000 (<i>p</i> = 0.001)	0.000 (<i>p</i> = 0.001)	0.000 (<i>p</i> = 0.001)	0.000 (<i>p</i> = 0.001)
POLCON	0.520 (<i>p</i> = 0.001)	0.410 (<i>p</i> = 0.001)	0.896 (<i>p</i> = 0.001)	0.904 (<i>p</i> = 0.001)	0.193 (<i>p</i> = 0.001)	0.610 (<i>p</i> = 0.001)
Active BIT	0.033 (<i>p</i> = 0.516)	0.076 (<i>p</i> = 0.137)	0.216 (<i>p</i> = 0.001)	0.225 (<i>p</i> = 0.001)	0.149 (<i>p</i> = 0.001)	0.262 (<i>p</i> = 0.001)
Net income	0.047 (<i>p</i> = 0.043)	0.043 (<i>p</i> = 0.072)	0.026 (<i>p</i> = 0.009)	0.025 (<i>p</i> = 0.010)	0.035 (<i>p</i> = 0.001)	
Employees	0.008 (<i>p</i> = 0.922)	0.013 (<i>p</i> = 0.871)	0.007 (<i>p</i> = 0.478)	0.007 (<i>p</i> = 0.452)	– 0.005 (<i>p</i> = 0.567)	
Operating revenue	– 0.059 (<i>p</i> = 0.122)	– 0.055 (<i>p</i> = 0.151)	– 0.012 (<i>p</i> = 0.312)	– 0.012 (<i>p</i> = 0.290)	– 0.013 (<i>p</i> = 0.231)	
Equity ratio	130.912 (<i>p</i> = 0.432)	130.163 (<i>p</i> = 0.468)	– 0.366 (<i>p</i> = 0.863)	– 0.393 (<i>p</i> = 0.860)	– 1.631 (<i>p</i> = 0.465)	
Target-country experience	1.084 (<i>p</i> = 0.001)	1.066 (<i>p</i> = 0.001)	0.733 (<i>p</i> = 0.001)	0.735 (<i>p</i> = 0.001)	0.650 (<i>p</i> = 0.001)	0.979 (<i>p</i> = 0.001)
International experience	– 1.073 (<i>p</i> = 0.001)	– 1.060 (<i>p</i> = 0.001)	– 0.671 (<i>p</i> = 0.001)	– 0.677 (<i>p</i> = 0.001)	– 0.625 (<i>p</i> = 0.001)	
Observations	110,287	110,287	110,287	110,287	89,946	110,287
AIC	101,470.3	100,628.5	87,177.7	87,356.9	87,955.5	49,079.2
BIC	151,417.8	150,585.7	87,956.2	88,135.4	88,087.2	49,136.9
Fixed effects	Firm	Firm	Target country– Year	Target country– Year	None	None

Model 1 includes only control variables. Model 2 includes our main variable of interest for H1, *Populism score*. Model 3 uses target country-year fixed effects. Model 4 uses a two-way fixed-effects design with target country and year fixed effects and an intermittent dummy (a value of 1 if *Populism score* is above the mean plus one standard deviation, 0 otherwise). Model 5 is a quasi-difference-in-difference model with an indicator of whether an election occurred in the year prior to the investment and an indicator of high populism. Model 6 is a conditional logit model

attractiveness. Via a quasi-two-stage estimation reported in Online Appendix B, we provide more evidence for our suggested mechanisms. Although we believe this investigation has merit, we do not think it can serve as a general approach to an identification strategy in this paper. After all, populism is not an exogenously determined characteristic. As a result, we cannot draw on established two-stage techniques to argue for causality. In this research stream, causality has to be established from theory.

We now turn to examining the moderating effects that we hypothesized in H2 (business orientation), H3 (anti-immigration), and H4 (alignment). Model 1 of Table 3 shows the interaction between *Populism score* and business orientation. The coefficient is positive ($\beta = 0.443$, $p = 0.001$), supporting H2: the entry-deterring effect of a populist government in a host country is weaker for business-oriented regimes. In Model 2, we test the interaction between *Populism score* and anti-immigration. The coefficient is negative ($\beta = -0.042$, $p = 0.007$), supporting H3: the entry-deterring effect of a

populist government in a host country is stronger for regimes with strong anti-immigration stances.

For better interpretation, we graph both interaction effects in Fig. 3. Figure 3 shows the marginal effects of the *Populism score* on investment probability for different levels of business orientation in target countries (top left panel) and the anti-immigration score (top right panel). The marginal effect of populism when a regime's business orientation score is low (at a score of minus 1, which is about 1 standard deviation below the mean-centered value in our sample) is approximately -0.737 ($p=0.001$). However, the entry-deterring effect of populism on investment likelihood is approximately 60% smaller ($\beta = -0.295$, $p=0.001$) when a regime's business orientation score is at the average level (zero). Thus, the negative effect of the *Populism score* on investment likelihood decreases with increasing business orientation. Interestingly, for highly business-oriented regimes, the marginal effect of the *Populism score* is positive. At a business orientation of one standard deviation above the mean (approximately at a level of 1), the marginal effect of populism is approximately 0.147 ($p=0.001$). In other words, the business-friendliness of extremely business-oriented regimes outweighs the negative effect of populism. In our sample, roughly 30% of observations fall into this window.

We also graph the interaction effect hypothesized in H3. The top right panel in Fig. 3 shows the marginal effects of the *Populism score* on investment probability for different levels of anti-immigration stance. The marginal effect of populism when a regime's anti-immigration score is low (minus 1, or about 1 standard deviation below the mean value in our sample) is approximately -0.255 ($p=0.001$). However, the entry-deterring effect of populism on investment likelihood is approximately 14% larger when a regime's anti-immigration score is at the average level (zero, which corresponds to the mean value in our sample). For that anti-immigration score, the marginal effect of populism is -0.295 ($p=0.001$). Thus, the negative effect of the *Populism score* on investment likelihood becomes more pronounced with increasing anti-immigration stance. However, the economic magnitude of the anti-immigration moderation is smaller than that of the business-orientation moderation. In Model 3 (Table 3), we test H2 and H3 together. The results are robust, and the coefficients of interest remain similar in sign and magnitude.

We next examine alignment along the two dimensions: business orientation and anti-immigration. In Model 4, we introduce the alignment between home- and host-country business orientation as a moderator. We see that home–host country alignment on business orientation reduces the negative effect of populism on FDI, supporting H4a ($\beta = 0.099$, $p=0.001$). Similarly, alignment on the anti-immigration score (Model 5) also reduces the negative effect of populism in the host country on investment probability, lending further

support to H4b ($\beta = 0.063$, $p=0.022$). The economic significance of alignment on anti-immigrant sentiment, however, is approximately two-thirds as high as for business orientation. In Model 6, we include both types of alignment and receive statistically similar results, with somewhat inflated p -values ($p=0.001$ and $p=0.095$, respectively). In Model 7, we use the arithmetic mean of the two types of alignment and find an effect that essentially reflects the combination of the two coefficients in Model 4 and Model 5 ($\beta = 0.169$, $p=0.001$). The bottom panel of Fig. 3 illustrates this marginal effect. We observe that the marginal effect of populism on FDI probability becomes less negative with more alignment, but it remains negative across the full range of alignment in the study. In Model 8, we test all hypotheses in one model and again find very similar coefficients to the individual tests.

Robustness tests

We test the robustness of our findings to several alternative data and modeling choices. First, our results are robust to several alternate constructions of counterfactual observations (Online Appendix C), including the number of counterfactuals per realized investment, alternate definitions of regions, and restricting counterfactuals to countries that received prior FDI. Second, we show that our results are also robust to different model constructions (Online Appendix D), including different fixed-effects structures, conditional versus unconditional logit models, count models, quasi-quantile regression (not tabulated), and additional control variables. Third, our results are robust to different lag structures, as well as to a sample including only target countries that experienced an increase in populism in the year prior to the investment (Online Appendix E).

Additional data exploration

Having established the robustness of our findings in hypothesis tests, we proceed to explore the data further. We investigate the asymmetric effects that alignment can have in terms of which (home or host) country has higher or lower business orientation and anti-immigration orientation, as well as the interaction between the two components we disentangle: business orientation and anti-immigration orientation. Table 4 shows the results of our investigations along these lines, with coefficients in bold indicating the main results about our additional explorations. Control variables and model specification remain unchanged from the main full model in which we test all hypotheses together (Model 8 of Table 3).

Models 1 and 2 in Table 4 investigate the role of asymmetries in the alignment between home and host governments on business orientation. We can see that the average interaction effect of alignment along business orientation



Table 3 Moderating effects of business orientation, anti-immigration score, and home–host alignment on foreign firm investment

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Populism score (H1: -)	- 0.293 (<i>p</i> = 0.001)	- 0.279 (<i>p</i> = 0.001)	- 0.295 (<i>p</i> = 0.001)	- 0.257 (<i>p</i> = 0.001)	- 0.277 (<i>p</i> = 0.001)	- 0.257 (<i>p</i> = 0.001)	- 0.259 (<i>p</i> = 0.001)	- 0.285 (<i>p</i> = 0.001)
Business orientation	0.113 (<i>p</i> = 0.001)		0.113 (<i>p</i> = 0.001)					0.110 (<i>p</i> = 0.001)
Populism score * Business orientation (H2: +)	0.443 (<i>p</i> = 0.001)		0.442 (<i>p</i> = 0.001)					0.437 (<i>p</i> = 0.001)
Anti-immigration		- 0.065 (<i>p</i> = 0.032)	- 0.049 (<i>p</i> = 0.090)					- 0.024 (<i>p</i> = 0.421)
Populism score * Anti-immigration (H3: -)		- 0.042 (<i>p</i> = 0.007)	- 0.040 (<i>p</i> = 0.031)					- 0.041 (<i>p</i> = 0.029)
BO alignment				0.147 (<i>p</i> = 0.001)		0.146 (<i>p</i> = 0.001)		
Populism score * BO alignment (H4a: +)				0.099 (<i>p</i> = 0.001)		0.099 (<i>p</i> = 0.001)		
AI alignment					- 0.055 (<i>p</i> = 0.291)	- 0.086 (<i>p</i> = 0.092)		
Populism score * AI alignment (H4b: +)					0.063 (<i>p</i> = 0.022)	0.047 (<i>p</i> = 0.095)		
Alignment index							0.262 (<i>p</i> = 0.001)	0.207 (<i>p</i> = 0.001)
Populism score * Alignment index (H4: +)							0.169 (<i>p</i> = 0.001)	0.075 (<i>p</i> = 0.044)
FDI per GDP	- 0.063 (<i>p</i> = 0.001)	- 0.053 (<i>p</i> = 0.001)	- 0.063 (<i>p</i> = 0.001)	- 0.055 (<i>p</i> = 0.001)	- 0.053 (<i>p</i> = 0.001)	- 0.056 (<i>p</i> = 0.001)	- 0.055 (<i>p</i> = 0.001)	- 0.064 (<i>p</i> = 0.001)
GDP per capita	0.000 (<i>p</i> = 0.837)	0.000 (<i>p</i> = 0.078)	0.000 (<i>p</i> = 0.846)	0.000 (<i>p</i> = 0.018)	0.000 (<i>p</i> = 0.067)	0.000 (<i>p</i> = 0.015)	0.000 (<i>p</i> = 0.019)	0.000 (<i>p</i> = 0.864)
POLCON	0.113 (<i>p</i> = 0.239)	0.413 (<i>p</i> = 0.001)	0.117 (<i>p</i> = 0.219)	0.399 (<i>p</i> = 0.001)	0.410 (<i>p</i> = 0.001)	0.400 (<i>p</i> = 0.001)	0.399 (<i>p</i> = 0.001)	0.126 (<i>p</i> = 0.185)
Active BIT	0.131 (<i>p</i> = 0.013)	0.075 (<i>p</i> = 0.141)	0.132 (<i>p</i> = 0.012)	0.058 (<i>p</i> = 0.252)	0.077 (<i>p</i> = 0.126)	0.060 (<i>p</i> = 0.239)	0.063 (<i>p</i> = 0.217)	0.126 (<i>p</i> = 0.017)
Net income	0.037 (<i>p</i> = 0.111)	0.043 (<i>p</i> = 0.072)	0.037 (<i>p</i> = 0.110)	0.046 (<i>p</i> = 0.071)	0.043 (<i>p</i> = 0.076)	0.046 (<i>p</i> = 0.078)	0.047 (<i>p</i> = 0.060)	0.039 (<i>p</i> = 0.097)
Employees	0.045 (<i>p</i> = 0.535)	0.034 (<i>p</i> = 0.677)	0.060 (<i>p</i> = 0.407)	0.026 (<i>p</i> = 0.747)	0.001 (<i>p</i> = 0.985)	0.009 (<i>p</i> = 0.908)	0.043 (<i>p</i> = 0.607)	0.068 (<i>p</i> = 0.363)
Operating revenue	- 0.050 (<i>p</i> = 0.159)	- 0.055 (<i>p</i> = 0.155)	- 0.050 (<i>p</i> = 0.164)	- 0.056 (<i>p</i> = 0.144)	- 0.056 (<i>p</i> = 0.143)	- 0.057 (<i>p</i> = 0.135)	- 0.055 (<i>p</i> = 0.155)	- 0.049 (<i>p</i> = 0.176)
Equity ratio	125.653 (<i>p</i> = 0.443)	135.467 (<i>p</i> = 0.467)	129.205 (<i>p</i> = 0.442)	87.425 (<i>p</i> = 0.603)	127.785 (<i>p</i> = 0.458)	83.722 (<i>p</i> = 0.597)	95.284 (<i>p</i> = 0.596)	106.755 (<i>p</i> = 0.521)
Target-country experience	1.051 (<i>p</i> = 0.001)	1.065 (<i>p</i> = 0.001)	1.051 (<i>p</i> = 0.001)	1.064 (<i>p</i> = 0.001)	1.066 (<i>p</i> = 0.001)	1.064 (<i>p</i> = 0.001)	1.064 (<i>p</i> = 0.001)	1.050 (<i>p</i> = 0.001)
International experience	- 1.057 (<i>p</i> = 0.001)	- 1.053 (<i>p</i> = 0.001)	- 1.051 (<i>p</i> = 0.001)	- 1.052 (<i>p</i> = 0.001)	- 1.060 (<i>p</i> = 0.001)	- 1.052 (<i>p</i> = 0.001)	- 1.053 (<i>p</i> = 0.001)	- 1.052 (<i>p</i> = 0.001)
Observations	110,287	110,287	110,287	110,287	110,287	110,287	110,287	110,287
AIC	98,822.4	100,609.1	98,810.5	100,402.1	100,617.6	100,394.6	100,416.7	98,728.8
BIC	148,798.8	150,585.4	148,806.1	150,378.5	150,594.0	150,390.2	150,393.1	148,743.6
Fixed effects	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm

Model 1 includes the moderation effect of business orientation (H2). Model 2 includes the moderation effect of the anti-immigration score (H3). Model 3 includes the moderation effects of H2 and H3 together. Model 4 includes the moderation effect of alignment between home- and host-country regimes on business orientation (H4a). Model 5 tests H4b using alignment on the anti-immigration dimension. Model 6 uses both tests of H4 simultaneously. Model 7 tests H4 using the mean of business-orientation alignment and anti-immigration score. Model 8 is a full model including tests for all hypotheses



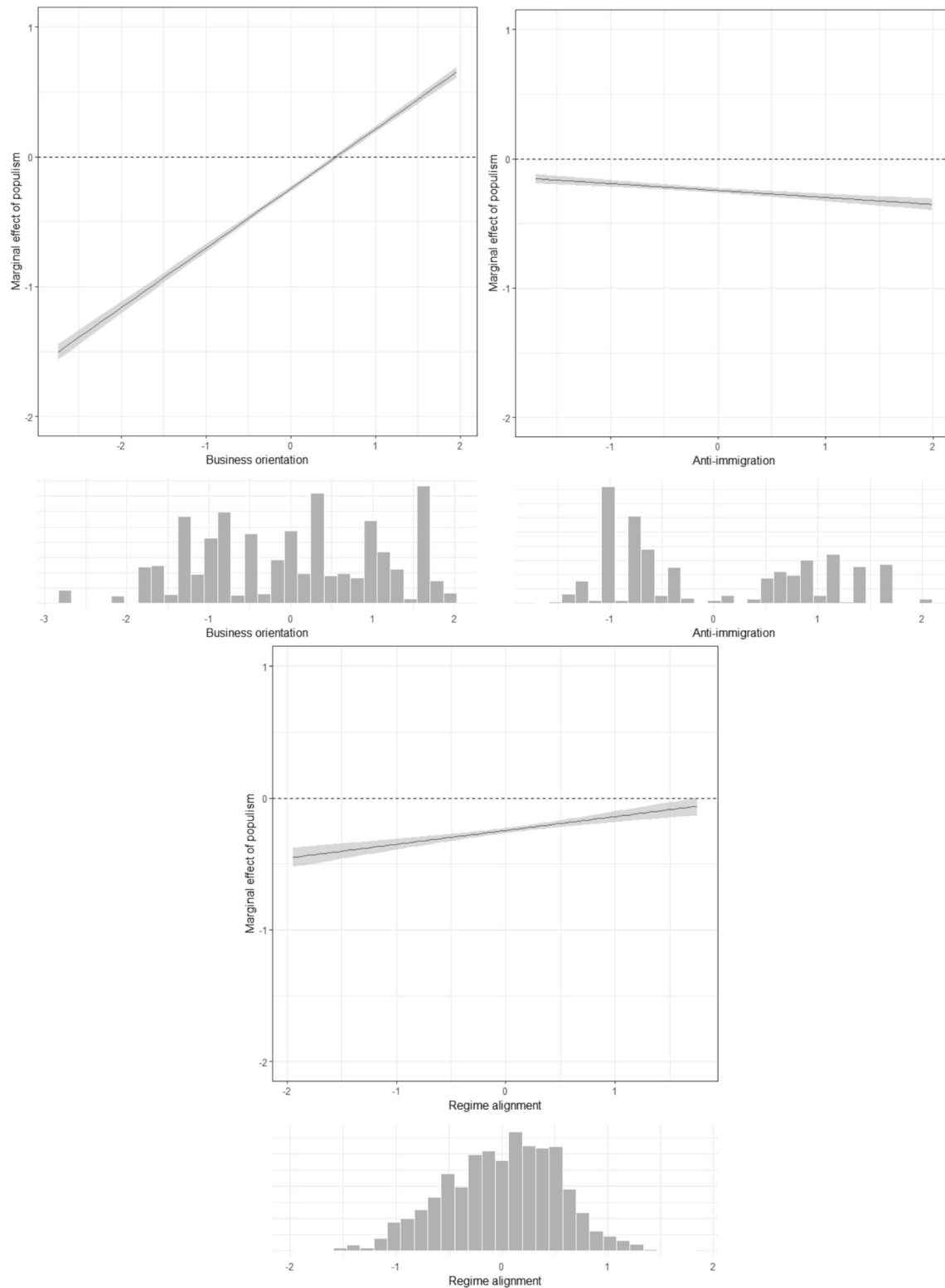


Fig. 3 Marginal effects of populism on investment probability for different regime characteristics. *Note* Marginal effects of populism based on different levels of business orientation (*top left panel*, H2), anti-

immigration stance (*top right panel*, H3), and regime alignment (*bottom panel*, H4)

conditioning the negative main effect of populism is 0.095 ($p=0.001$) in Model 1. If we distinguish between those cases where the (potential) target country has a higher business-orientation score than the home country (in Model 2), we see that the negative effect of populism is even further reduced. The joint effect of the two-way interaction (*Populism score* * *BO alignment*) and the three-way interaction, indicating cases where the (potential) target country has higher business orientation (*Populism score* * *BO alignment* * *Host more BO*) is approximately 0.129 ($0.062 + 0.067$), compared with only 0.062 for the scenario where the (potential) target country has lower business orientation than the home country. We adopt a similar approach in Models 3 and 4 for anti-immigration alignment and the question of which of the two countries (home or target) has a higher anti-immigration orientation. Here, we find that it is indeed the other way around: alignment along the anti-immigration orientation lowers the negative main effect of *Populism score* for those cases where the (potential) target country has a lower anti-immigration orientation, as indicated by the negative three-way interaction coefficient (*Populism score* * *AI alignment* * *Host more AI*) in Model 4. The average moderation effect across all cases (shown in Model 3) is, however, still positive (0.067, $p = 0.015$). These more complex effects further corroborate our central argument that we need to look at populism in a more granular way. The two main characteristics of modern populism, business orientation and anti-immigration orientation, not only have contrasting effects on how populism affects FDI. It is also the case that alignment between regimes, while generally a positive moderator of the negative effect of populism on FDI, is sensitive to which regime is more business-oriented and more anti-immigration-oriented – and the direction of these contingencies is opposite for the two characteristics. These are relevant insights that need further examination in future studies.

Model 5 in Table 4 investigates more directly the interaction between business orientation and anti-immigration orientation in terms of their conditioning effect on how populism influences FDI. To this end, we include a three-way interaction (*Populism score* * *Business orientation* * *Anti-immigration*) in Model 5. It turns out that while there is a nonzero coefficient on the three-way interaction (-0.020), the statistical significance is quite weak ($p=0.246$). As a result, we conclude that the alignment effects may be the more prominent ways for how the two characteristics of regimes interact.

Discussion and conclusion

Foreign firms are generally less likely to invest in countries governed by populist regimes, yet such governments do not uniformly reject foreign capital, and some foreign firms

continue to invest. To explain this paradox, this study highlights two key regime characteristics, business orientation and immigration stance, that shape whether foreign firms are categorized as insiders or outsiders. These factors are closely linked to how foreign firms, as economic actors from abroad, are perceived in the host country's social and political context. Pro-business regimes are less likely to marginalize MNCs, thereby weakening the negative effect of populism on FDI. In contrast, strong anti-immigration stances intensify the perception of foreign firms as outsiders, amplifying populism's adverse influence on investment. Importantly, the mitigating influence of a pro-business orientation outweighs the exacerbating effect of anti-immigration stance. Furthermore, alignment between home- and host-country regimes reduces populist resistance to foreign firms.

Notwithstanding our efforts at rigorous theorizing and empirical testing, the study has several limitations. First, we focus on location-choice decisions of foreign firms. However, there may be other mechanisms for how firms can alleviate the negative effects of being delegitimized as the out-group in host countries with populist governments. Our data does not capture other forms of economic activity in a target country (such as exporting), or different strategies for managing populist governments. Future research can investigate how companies learn to manage and engage with populists, and how this will influence strategic decisions. Second, we rely on the data and expertise in the V-DEM project to measure the extent of a host government's populism. However, we acknowledge that regime characteristics could be more complex than our study discusses. Third, our sample and analysis ended in 2017, largely because of data limitations in the V-DEM project. However, there has been a further upsurge in populism since then, gained through a mix of electoral victories and institutional entrenchment. Simultaneously, the anti-immigration sentiment has also grown stronger in recent years, with strong implications for populist regimes and foreign firms' investment strategy. Future work could extend the time period of analysis to assess how the relationship between MNCs' location choice and host government's populism evolves over time. There are hence a number of avenues of future research that emerge from the starting points this study makes building on recent work investigating how populism affects foreign firms (Sallai et al., 2023), and what foreign firms can do about it (Blake et al., 2024). There are likely a variety of mechanisms at work simultaneously, and future research can employ qualitative and quantitative designs to understand these mechanisms.

Nonetheless, our work contributes to the academic debates around populism in international business (e.g., Bennett et al., 2023; Carballo Perez & Corina, 2024; Sallai et al., 2023). First, we shift attention from the de-institutionalization and short-term policy bias of populist governments to their anti-elitism ideology. Recent empirical research



Table 4 Post hoc tests

	Model 1	Model 2	Model 3	Model 4	Model 5
Populism score	− 0.603 (<i>p</i> = 0.001)	− 0.597 (<i>p</i> = 0.001)	− 0.312 (<i>p</i> = 0.001)	− 0.387 (<i>p</i> = 0.001)	− 1.674 (<i>p</i> = 0.001)
Business orientation (BO)	0.066 (<i>p</i> = 0.001)	0.048 (<i>p</i> = 0.017)	0.075 (<i>p</i> = 0.001)	0.077 (<i>p</i> = 0.001)	0.068 (<i>p</i> = 0.117)
Populism score * Business orientation					0.478 (<i>p</i> = 0.001)
Anti-immigration (AI)	− 0.032 (<i>p</i> = 0.275)	− 0.036 (<i>p</i> = 0.223)	− 0.077 (<i>p</i> = 0.009)	− 0.068 (<i>p</i> = 0.020)	0.178 (<i>p</i> = 0.009)
Populism score * Anti-immigration					0.028 (<i>p</i> = 0.617)
BO alignment	0.109 (<i>p</i> = 0.001)	0.092 (<i>p</i> = 0.001)			0.147 (<i>p</i> = 0.001)
Populism score * BO alignment	0.095 (<i>p</i> = 0.001)	0.062 (<i>p</i> = 0.008)			
AI alignment			− 0.124 (<i>p</i> = 0.014)	− 0.132 (<i>p</i> = 0.009)	
Populism score * AI alignment			0.067 (<i>p</i> = 0.015)	0.251 (<i>p</i> = 0.001)	
Populism score * BO alignment * Host more BO		0.067 (<i>p</i> = 0.001)			
Populism score * AI alignment * Host more AI				− 0.216 (<i>p</i> = 0.001)	
Business orientation * Anti-immigration					− 0.064 (<i>p</i> = 0.001)
Populism score * Business orientation * Anti-immigration					− 0.020 (<i>p</i> = 0.246)
FDI per GDP	− 0.055 (<i>p</i> = 0.001)	− 0.057 (<i>p</i> = 0.001)	− 0.053 (<i>p</i> = 0.001)	− 0.053 (<i>p</i> = 0.001)	− 0.063 (<i>p</i> = 0.001)
GDP per capita	0.000 (<i>p</i> = 0.015)	0.000 (<i>p</i> = 0.027)	0.000 (<i>p</i> = 0.055)	0.000 (<i>p</i> = 0.060)	0.000 (<i>p</i> = 0.931)
POLCON	0.418 (<i>p</i> = 0.001)	0.372 (<i>p</i> = 0.001)	0.432 (<i>p</i> = 0.001)	0.440 (<i>p</i> = 0.001)	0.136 (<i>p</i> = 0.155)
Active BIT	0.067 (<i>p</i> = 0.185)	0.091 (<i>p</i> = 0.071)	0.087 (<i>p</i> = 0.087)	0.074 (<i>p</i> = 0.145)	0.124 (<i>p</i> = 0.019)
Net income	0.047 (<i>p</i> = 0.063)	0.047 (<i>p</i> = 0.065)	0.044 (<i>p</i> = 0.070)	0.045 (<i>p</i> = 0.068)	0.037 (<i>p</i> = 0.115)
Employees	0.036 (<i>p</i> = 0.646)	0.043 (<i>p</i> = 0.595)	0.023 (<i>p</i> = 0.767)	0.018 (<i>p</i> = 0.816)	0.061 (<i>p</i> = 0.394)
Operating revenue	− 0.056 (<i>p</i> = 0.142)	− 0.055 (<i>p</i> = 0.156)	− 0.056 (<i>p</i> = 0.137)	− 0.057 (<i>p</i> = 0.126)	− 0.047 (<i>p</i> = 0.185)
Equity ratio	97.531 (<i>p</i> = 0.570)	103.967 (<i>p</i> = 0.552)	140.066 (<i>p</i> = 0.434)	138.782 (<i>p</i> = 0.434)	103.612 (<i>p</i> = 0.519)
Target-country experience	1.062 (<i>p</i> = 0.001)	1.059 (<i>p</i> = 0.001)	1.064 (<i>p</i> = 0.001)	1.064 (<i>p</i> = 0.001)	1.049 (<i>p</i> = 0.001)
International experience	− 1.052 (<i>p</i> = 0.001)	− 1.052 (<i>p</i> = 0.001)	− 1.053 (<i>p</i> = 0.001)	− 1.051 (<i>p</i> = 0.001)	− 1.051 (<i>p</i> = 0.001)
Observations	110,287	110,287	110,287	110,287	110,287
AIC	100,347.4	100,186.4	100,537.9	100,445.7	98,680.1
BIC	150,343.0	150,191.6	150,533.5	150,450.9	148,704.5
Fixed effects	Firm	Firm	Firm	Firm	Firm

Models 1–5 include fixed effects. Models 1 and 2 investigate how the effect for business orientation depends on whether the host country has a lower (Model 1) or higher (Model 2) business orientation than the home country. Models 3 and 4 do the same for higher anti-immigration orientation in home country (Model 3) or host country (Model 4). Model 5 investigates a higher-order interaction between *Populism score*, business orientation, and anti-immigration orientation



suggested that the main challenge for foreign firms arises because of the deterioration in an institutional environment and the increase in policy and regulatory uncertainty. This raises transaction costs, and foreign investment is deterred (Bennett et al., 2023; Carballo Perez & Corina, 2024). Although it does not challenge this view, our argument is different. We propose that, even after accounting for institutional quality, populist governments have an entry-detering effect on foreign investment because they delegitimize and target foreign firms as outsiders.

At the same time, we also examine how this effect is moderated by two aspects of host-country regimes: business orientation and immigration stance. These regime characteristics shape the extent to which foreign firms are further characterized as outsiders. Our results for regimes with very high business orientation are especially intriguing, suggesting that such regimes may offer unexpected opportunities for foreign firms despite their populist governments. This nuanced approach helps to unpack the complexity of populism and contributes to prior work on the varieties of populism (Devinney & Hartwell, 2020).

Additionally, we extend this discussion by considering these regime characteristics not only in isolation but also relative to the home-country regime, thus introducing an important relational perspective to the foreign-location decision. While we see increasing scholarly interest in the study of ideological affinity between locations (e.g., the effects of ideological affinity on cross-border M&A transactions as in Fieberg, Lopatta, Tammen and Tideman (2021)) or within-country location decisions (Barber & Blake, 2024), our study brings the regime characteristics of the home country into the *foreign* location-decision discussion. This relational view highlights how differences or similarities between the home- and host-regimes' business orientation and immigration stances shape regimes' perceptions of firm outsidersness and influence location decisions.

Our focus was on populist governments. Although this concept is sometimes conflated with others, such as nationalism and protectionism in scholarly and public debates, they are distinct. For instance, nationalism is rooted in a cognitive and affective orientation toward the nation, often expressed through assumptions of national and cultural superiority (Edman, Cuypers, Ertug, & Aguilera, 2024). Populism, by contrast, constitutes a "thin-centered" ideology (Mudde, 2004) that frames politics as a struggle between "the pure people" and "the corrupt elite," without prescribing what the substantive identity of "the people" should be (Abts & Rummens, 2007). This means that foreign actors, including firms, could be part of the ingroup. Indeed, as our findings demonstrate, in extremely business-oriented regimes, populist governments increase the likelihood of foreign investment. It is also important to distinguish populism from protectionism; the latter focuses primarily on economic

policy, whereas populism operates broadly across cultural, political, and economic domains and can exist without any specific trade stance. By highlighting these distinctions, we contribute to the literature by showing that populist ingroup/outgroup constructions are not inherently national and not reducible to protectionist trade policies but can instead be defined along socioeconomic, cultural, class, or ethnic lines depending on the context in which populism operates.

Finally, our study contributes to the vast literature on political risk in strategy and international business, specifically the research on foreign-location choice. Traditionally, these studies view the determinant of political risk as the presence or absence of veto points or checks and balances in a host country's policymaking structure (e.g., Dorobantu, Lindner, & Müllner, 2020; Henisz & Zelner, 2005). Our study moves away from this structural view of political risk to acknowledge that policymakers are not indifferent among various policy choices but prioritize vastly different behavior within a given framework. We suggest that a government may leave formal institutions untouched yet still generate significant risks for foreign firms through narratives that delegitimize them. Importantly, political risk is not uniform for all MNCs; it depends on which firms the regime categorizes as part of the ingroup or the outgroup. Different regime characteristics actively shape and redraw these boundaries, often portraying certain foreign firms as legitimate actors while casting others as outsiders. This perspective suggests that political risk under populist governments is identity-based, rather than purely structural, bringing us closer to the legitimacy-based view of political risk (Stevens et al., 2016).

For MNCs, an important strategic decision relates to foreign location choice. Our work provides some practical guidance for investing under populism. First, firms should avoid treating all populist regimes as uniformly risky. Rather, firms should assess specific dimensions of populism that relate to their investment, particularly the regime's business orientation and anti-immigration stance. If, for example, business activities depend heavily on global mobility, highly anti-immigration contexts may be significantly less attractive. Firms therefore need to evaluate whether they can move international talent and anticipate constraints on expatriates and cross-border teams. Second, our work points firms to data sources that can be used to assess these dimensions of countries in the choice set. In practice, this implies integrating political risk indicators and policy-specific measures into location analysis. Firms can leverage cross-national datasets, expert surveys, and real-time political monitoring tools to track shifts in rhetoric and policy direction. Embedding these indicators into existing location screening models allows firms to compare countries not only on economic fundamentals but also on the specific attributes of populism. Finally, firms will be well advised to take into account regime characteristics of their home countries and the alignment (if any)



between home and host locations. Alignment can act as an informal “insurance mechanism,” reducing uncertainty, and hence firms should prioritize countries with high political alignment with the home country.

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Data availability We will not make the data fully available due to third-party property rights.

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