

# The impact of populism on multinational corporations' investment

June 22 2023

---



Credit: Pixabay/CC0 Public Domain

A stable economic and political environment is necessary for firms to feel secure while making long-term investment decisions, such as those related to investing in foreign countries (also known as foreign direct investment or FDI). Any threat to change legislative procedures in the foreign country can make it difficult for firms to predict the outcomes

of such decisions. Populist leaders, who claim to represent the will of the people, often come to power by threatening to alter the established rules and procedures, generating a more uncertain landscape for multinationals.

Due to these changes, firms and investors find it difficult to navigate the uncertain investment climate, and managers are discouraged from making immediate irreversible decisions. Now, in a new *Global Strategy Journal* study, researchers examine this issue further to understand how the presence of populist rulers affects investment decisions in [democratic countries](#).

"We reasoned that countries with populist leaders at the helm are less likely the target of firms planning to make FDI decisions," says Margherita Corina, the study's co-author. Corina and her colleague, Alfonso Carballo Perez, both professors at NEOMA Business School, also hypothesized that countries with strong country-level institutional frameworks and firms with higher levels of international presence can moderate these negative effects. The authors used data from U.S. multinationals in 37 democratic countries from 1999 to 2020 to study and validate their hypothesis.

The study revealed that the presence of populist leaders in government harms firm foreign investment based on the increasing uncertainty generated by populists' discourses. Elaborating further, Corina says, "Since foreign investment is often not easily reversible and populism threatens to drastically change institutions, firms will be even more cautious in their investment decisions once a populist government takes office in a country. Therefore, managers may prefer to postpone their actions to obtain more information."

The authors also found that these negative effects can be moderated by a strong institutional environment and the level of firm

internationalization. Institutional frameworks with weak protection to [foreign investment](#) may create challenges for the expansion of multinational companies in the context of populism since the threats of their rulers can be seen as more credible and generate institutional volatility.

Furthermore, businesses with higher levels of internationalization are better equipped to navigate the challenges posed by populist leaders. This might be due to their experience of operating in foreign markets and their ability to adapt to political and economic changes.

With populism emerging as a persistent global phenomenon, these findings may be particularly important for multinational company managers dealing with political uncertainty.

"Given the irreversible nature of investment decisions, managers may find it difficult to make [investment decisions](#) in countries where populist leaders target multinational organizations. Firms may be better able to absorb any risk by diversifying to other countries," explains Carballo.

In summary, this study offers important insights regarding the nexus between populism and global strategies. It also suggests ways in which [firms](#) can become more adaptable to an uncertain [investment](#) climate under populist governments, such as by leveraging strong institutional frameworks in the foreign country and by drawing on the experiences from internationalization to make better-informed decisions. Future research is needed for informed and effective decision-making in an increasingly uncertain global landscape.

**More information:** Alfonso Carballo Perez et al, Foreign direct investment in the context of rising populism: The role of institutions and firm-level internationalization, *Global Strategy Journal* (2023). [DOI: 10.1002/gsj.1488](https://doi.org/10.1002/gsj.1488)

Provided by Strategic Management Society

Citation: The impact of populism on multinational corporations' investment (2023, June 22)  
retrieved 28 April 2024 from

<https://phys.org/news/2023-06-impact-populism-multinational-corporations-investment.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.