POPULIST SYNDROME AND NONMARKET STRATEGY

Abstract:

Although recognized as a defining feature of the current political era, populism and its implications for nonmarket strategy remain undertheorized. This study develops a framework that (a) conceptualizes populism and its progression over time; (b) outlines the risks and opportunities populism generates for firms; and (c) theorizes the dynamic effects of populism on firms’ nonmarket strategies. The framework is based on our conceptualization of “the populist syndrome” composed of three interdependent elements: anti-establishment ideology, de-institutionalization, and short-term policy bias. These elements combine to shape the policymaking dynamics and institutional risks that firms encounter under populism. We argue that political ties and corporate social responsibility are particularly attractive nonmarket strategies under populism (relative to non-populist regimes). We further theorize how, within populism, the effectiveness of specific attributes of these strategies – namely their relative covertness (more vs. less concealed) and their relative focus (narrow vs. broad targeting) – varies as a function of firm types and the durability of the populist regime.

Daniel Blake
Associate Professor, IE Business School

Stanislav Markus
(Associate Professor, University of South Carolina)

Julio Martinez
(PhD student, University of South Carolina)

authors listed alphabetically

Journal of Management Studies (revise & resubmit)

October 2021

Please do not share & cite appropriately

Keywords:

Populism, corporate political activity, political risk, political institutions, nonmarket strategy
Scholars and journalists alike view the rise of populist regimes across the world as the defining political shift of the 21st century. Populism is defined as a political ideology dividing society into two opposing groups: the “pure people” versus the “corrupt elite” (Mudde, 2004). This ideology gives rise to “anti-system politics” (Hopkin, 2020) increasingly experienced in advanced and developing democracies alike.1 Today, more than two billion people live under regimes that are at least somewhat populist2, and the recent rise in the vote for populist leaders across the globe is unprecedented since World War II (Aguilera et al., 2019).3 For firms, contemporary populism raises two related challenges – the identification of attendant political risks, and the formulation of appropriate strategic responses. We offer a new theoretical framework that addresses both challenges, with a particular focus on how firms adapt their nonmarket strategy (NMS) to manage the risks they encounter under populism.

Despite its empirical urgency, populism and its implications for firms remains largely under-theorized in management scholarship. In this context, we make two sets of overarching contributions to the literatures on political risk and nonmarket strategy respectively.

First, we argue that the political risk profile of populism entails a unique combination of three interdependent and mutually reinforcing elements: anti-establishment ideology, de-institutionalization, and short-term policy bias. Our novel perspective outlines these elements, theorizes the causal links between them, and demonstrates how they generate risks and

---

1 As ideology, populism can manifest itself in a wide range of political systems. However, we limit our inquiry to ex ante democratic populism, i.e. to countries in which populist incumbents were elected into power through free elections (as we argue, populism may substantially weaken democracy ex post, i.e. after populists come to power). Hence, ex ante authoritarian populism – e.g. that of China under Xi Jinping (Perry, 2015) or Mao (Townsend, 1977), or of the Soviet Union under Khrushchev (Nelson, 1984) – is outside of the scope of our inquiry.


3 The tremendous geographical reach of modern populism can in part be attributed to the preceding era of neoliberal policymaking, which stressed the primacy of free markets over the state and was championed by policymaking elites worldwide – leading to a similarly global backlash (Cayla, 2021).
opportunities for firms. Taken together, we refer to this constellation of elements and the logic that connects them as the “populist syndrome.”

While past work has examined institutional sources of risk such as low political constraints, corruption, and weak rule of law (e.g. Doh et al., 2003; Dorobantu et al., 2017; Henisz, 2000; Holburn and Zelner, 2010), much extant research takes a static and compartmentalized view of these institutions, examining how individual elements of institutional quality affect firm strategy and/or outcomes at a given moment in time. However, populism is multidimensional and entails ongoing institutional change: our framework captures this complex process concisely.

Furthermore, while much of the literature treats institutions as a given feature of the environment, we endogenize institutional risks by specifying the demand- and supply-side factors that lead to institutional deterioration. Our framework shows not only why populist incumbents (supply) may benefit from weakening institutions, but also the methods through which they pursue such weakening, and why such de-institutionalization and the resulting policy risk may be popularly supported (demand). Hence, we contribute to integrating the demand- and supply-side factors of political markets (Bonardi et al., 2005) for institutional formation and policymaking.

Our study also highlights the dynamic rationale behind the evolution of the populist syndrome. Extant institutional research on NMS stresses equilibrium analyses (Dorobantu et al., 2017). However, the populist syndrome is a process during which institutions change and the risks they pose to firms evolve. Our framework explains how, as populism progresses in a given country,

---

4 By distinguishing clearly between minimally defined “populism” (Mudde, 2004) and its political risk profile, i.e. the “populist syndrome,” we also contribute on the conceptual front to key definitional debates (Guriev, 2020). Definitional problems can arise when contingent elements of populism – including institutional features (e.g. authoritarianism), or policies (e.g. redistribution or protectionism), or ideologies (e.g. nationalism) – are incorporated into the definition of populism as such. Populist regimes (i.e. those founded on an anti-establishment ideology) may lack these contingent elements, while non-populist regimes may exhibit them.
the political risk landscape increasingly deteriorates as the risks inherent in anti-establishment ideology (from the start of the populist incumbency) are compounded by those stemming from de-institutionalization and short-term policy bias (over time). We further draw attention to firm heterogeneity as a critical distinction in firms’ experience of political risk under populism. Specifically, we distinguish between ‘insider’ firms structurally aligned with the regime and its core constituents and misaligned ‘outsider’ firms that face heightened levels of risk.

Finally, extant research tends to separately focus either on ‘strong’ or ‘weak’ institutional environments, with largely distinct sets of literatures addressing political risk in Western contexts (stressing policy fluctuation) vs. those of developing countries (stressing deeper challenges to property rights, law and order, etc.). Conversely, our framework shows how populism blurs the line between advanced and emerging markets as far as institutional risks go by facilitating institutional decay.

The second set of our overarching contributions addresses the literature on NMS. While it is widely accepted that the institutional environment shapes NMS (e.g. Markus and Charnysh, 2017; Hillman and Hitt, 1999; Holburn and Vanden Bergh, 2008), there is no cohesive framework that explains how firms select among nonmarket strategies under populism. Our framework theorizes how the effectiveness of two key strategies – political ties and corporate social responsibility (CSR) – varies across populist vs. non-populist regimes. At a more granular level, we also theorize how, within populism, the effectiveness of specific attributes of political ties and CSR – namely their relative covertness (more vs. less concealed) and their relative focus (narrow vs. broad targeting) – varies as a function of firm types and the perceived durability of the populist regime. Our theory responds to calls for research that examines how firms adapt strategically during periods of political flux (Aguilera et al., 2019) and offers three additional contributions.
First, while past work has highlighted the contingent value of political ties (Sun et al., 2012; Jia et al. 2021b) and their potential to become liabilities with leadership turnover (e.g. Siegel, 2007, Bucheli and Salvaj, 2017), our study theorizes how firms should manage their political connections ex ante as a function of perceived regime durability.

Second, we contribute to the scholarship on firms as political insiders vs. outsiders (Dorobantu et al., 2017). While extant research treats the insider / outsider status as the outcome of firms’ prior corporate political activity that can, for example, lead to regulatory capture by insider firms (Carpenter and Moss, 2013), we note that populism presents a different context in which the insider / outsider status is largely dictated by a firm’s structural alignment with the regime’s priorities. As such, the insider / outsider status is more often the antecedent of NMS rather than its result under populism.

Third, while the interdependencies between firms’ political and social activities remain understudied (Rodriguez et al., 2006; Sun et al., 2021), recent work has begun to identify pathways through which CSR can pay political dividends in terms of access, influence, and legitimacy (Werner, 2015; Darandeli and Hill, 2016). Our study extends this work by elaborating which CSR projects or activities firms should pursue to extract political value from their social activities.

We anchor our framework in institutional theory broadly speaking. We build on work that draws on new institutional economics with its focus on transaction costs and material incentives (e.g. Dorobantu et al., 2017; Hillman and Keim, 1996; Khanna and Palepu, 2000), as well as on sociology with its emphasis on legitimacy concerns and normative pressures (Suchman, 1995; Kostova and Zaheer, 1999; Stevens et al., 2016). This encompassing theoretical foundation is warranted precisely because political risk under populism as well as the firms’ NMS responses are multidimensional, as we elaborate below.
THE POPULIST SYNDROME AND POLITICAL RISK

While undertheorized in management research, populism has received greater attention in other disciplines. The applicability of theories from other fields to firm-level challenges, however, is limited for three reasons. First, the discursive approach (Hawkins, 2010; Laclau, 2005) – conceptualizing populism as an anti-establishment ideology – is insufficient as a guide for formulating firm strategy. After all, populist rhetoric (used as a proxy for ideology in this approach) may never translate into policy. While of intrinsic interest to political scientists, this approach tends to capture only the broadest potential for populism to hurt the firm’s bottom-line.

Second, the policy-based approach to populism identifies the latter with specific policies related to redistribution and/or protectionism (Dornbusch and Edwards, 1991; Rodrik, 2018). Although many populist politicians have indeed adopted such policies (which, in turn, certainly impact firms), populism has no monopoly on redistribution or protectionism, both of which can also be pursued by decidedly non-populist incumbents representing established programmatic parties (consider the social-democratic parties throughout Europe, for example). While economists are understandably interested in policies per se, our goal is to identify what is unique about populism from the firms’ perspective.

Third, and crucially, given the conceptual problems above, existing scholarship lacks a clear derivation of firm-level NMS responses to the populist threat. Thus, to conceptualize populism from the perspective of business actors, we focus on the overarching logic of political systems with populist incumbents. Below, we integrate ideological, institutional, and policy-making aspects of this logic which comprise the “populist syndrome.”
Anti-Establishment Ideology

We follow the literature in treating anti-establishment ideology as a core element of populism. This ideology separates society into two homogeneous and antagonistic groups, “the pure people” versus “the corrupt elite,” and, moreover, views politics as an expression of the general will of the people (Hawkins and Kaltwasser, 2017; Mudde, 2004).

The content of populist ideology has implications for the type of incumbents likely to win office under the populist banner. In particular, populist office-seekers who are political outsiders can more credibly claim to represent the masses against the establishment than career politicians (Barr, 2009). Further, the legitimacy of such political outsiders is more likely to be rooted in charisma compared to career politicians who can rely on their political record, the programmatic platform of an established party, or the material support of such a party (Hollyer et al., 2020).

While populists interpret the world through the good-vs-evil lens of morality (Hawkins, 2010), their underlying ideology is “thin” (Stanley, 2008) or limited in its original beliefs and ideas. Hence, populism often hijacks elements from other more established ideologies when these resonate with ‘the heartland’ as the target audience of populist leaders. Indeed, the “pure people” and the “corrupt elite” are “empty vessels” (Hawkins and Kaltwasser, 2017) open to being variably filled by populists depending on the context.

Left-wing and right-wing established ideologies, accordingly, provide ideational fillers for many populist regimes (Mudde and Kaltwasser, 2013; Rodrik, 2018). In its left-wing variant, populism casts class as the definitive cleavage between the people and the elites (qua “fat cats”), hence facilitating redistributive policies and inclusive enfranchisement. In its right-wing variant, populism casts country or nation as the definitive cleavage between the people and the elites (qua “traitors”), hence facilitating protectionist policies and exclusive enfranchisement. Right-wing
populism may also emphasize *law and order* or *military strength* (Bonner, 2019). The distinction between left-wing and right-wing *populism* is often not clear-cut given how opportunistically populists embrace or discard elements from the more established (and less “thin”) ideologies.

Anti-establishment ideology matters from the firms’ perspective because it undermines institutional integrity and alters the logic of policy-making as we elaborate in the next two sections. Moreover, anti-establishment ideology drives the separation of firms into insiders and outsiders from the populist regime’s perspective as we specify later. Taken together, these processes shape the firms’ strategic choices.

**De-Institutionalization**

“Democracy is like a train; you get off once you have reached your destination.”⁵ In his disarmingly frank statement, Turkey’s populist leader Erdoğan captured a key institutional repercussion of populism: populism uses democracy but has little interest in its long-term survival.

We refer to the second core element of populism as the process of “de-institutionalization,” defined here as the progressive *weakening of institutional safeguards and procedures of modern democratic governance*. Such safeguards, similarly to “veto points” (Henisz, 2000), include the separation of powers, the presence of independent media, the influence of technocratic experts, and so forth. The recent tenure of Donald Trump in the U.S. vividly illustrates the process of de-institutionalization through which the former president, communicating directly with his electoral base via Twitter, sought to weaken the institutional constraints on his presidency from other branches of government, from his political party, from the media, or from independent policy

---

⁵ https://www.economist.com/special-report/2016/02/04/getting-off-the-train
experts. As the examples of Jair Bolsonaro in Brazil, Thaksin Shinawatra in Thailand, or Andres Manuel Lopez Obrador in Mexico demonstrate, the U.S. experience is far from unique. In each case, these populist incumbents undermined the institutional constraints on their mandate.

De-institutionalization is a consequence of the anti-establishment ideology that characterizes populism for two reasons. First, the expression of “the general will” of the people by the populist incumbent renders any institutional intermediaries or constraints on this process superfluous. Indeed, “the tendency of all populist [regimes]…, be they right- or left-wing, [is] to emphasize the personification of democracy in the… leader” (Rode and Revuelta, 2015, p. 77).

Second, the black-and-white morality inherent in the populist ideology precludes organic change via established political channels. “Evil” elites cannot be vanquished through the institutional system that had served their ascendance (Hawkins, 2010). In other words, the ideology of anti-establishment is anti-institutional (and proto-revolutionary) at heart. Both mechanisms were invoked, for example, in the final impeachment hearings against Donald Trump in 2021, illustrating the president’s willingness to undermine the electoral constraints on his power.

While the methods through which populists progressively weaken the existing institutional order vary widely, we posit that they generally fall into the categories of avoidance, subversion, and elimination. By avoiding existing institutions, the incumbent relies on alternative institutional channels. For example, by using referendums and plebiscites, a populist may circumvent policy ratification by other government organs (Barr, 2009). As another example, by directly communicating with her followers via social media, a populist avoids established media that may inconveniently include fact-checking or independent commentary in its reporting. Although the existing institutions here remain intact, their avoidance by the incumbent can “starve” these institutions of “users,” hence decreasing institutional legitimacy over time.
When existing institutions are *subverted*, the incumbent undermines their functionality without changing their formal attributes. For example, by populating formally independent institutional bodies (e.g. courts or parliaments) with loyalists, the incumbent can neutralize their functionality as checks and balances (Levitsky and Loxton, 2013). To ensure that such appointees remain loyal, incumbents may appoint relatives or “regular people” lacking proper qualifications (Fukuyama, 2014). Incumbents may also subvert institutions through intimidation, such as by inciting violence against independent journalists, judges, or parliamentarians. Finally, irksome institutions may be altogether *eliminated* as a result of constitutional changes (as happened in Bolivia and Ecuador) or brute force (e.g. independent media outlets being shut down in Hungary).

Populist de-institutionalization can be *popularly supported* rather than simply imposed, i.e. driven by demand-side factors as much as supply-side factors. To begin, the weakening of the incumbent’s “horizontal” accountability – the loosening of checks and balances – is often legitimized by the (alleged) strengthening of the incumbent’s “vertical” accountability vis-à-vis the voters (Levitsky and Loxton, 2013). While in transit to autocracy, the voters may paradoxically feel more *empowered* (than before the populist incumbency) through referenda and other tools of “direct democracy” (Barr, 2009) even while voting for constitutional and legal reforms that reduce democratic accountability for their populist leaders.

Furthermore, the “strong hand” of a populist incumbent can be perceived by his electoral base as *protection* against cultural or economic insecurities (Inglehart and Norris, 2017). These demand-side factors help explain why even institutionally robust democracies can succumb to de-institutionalization.
De-institutionalization also *reinforces the anti-establishment ideology*. This reverse effect, for example, materializes when the institution of independent media is weakened, expanding the boundaries of permissible public discourse that becomes progressively untethered from facts.

**Short-Term Policy Bias**

The final core element of the populist syndrome concerns the logic of policy-making. Most policies involve inter-group and/or intertemporal tradeoffs. A vast literature in political economy has analyzed the distribution of policy costs and benefits across various constituencies (and the relative concentration of these costs and benefits within such constituencies) on the one hand – as well as the accumulation of policy costs and benefits across time on the other hand. Here, we examine the latter – intertemporal – aspect of policies adopted by populists.

We argue that populists are likely to adopt policies that deliver (very) quick benefits which are ultimately outweighed by (much) larger long-term costs. The general proclivity of democratic policy-making to favor short-term results given electoral cycles has, of course, been well-studied (e.g. Rodrik, 1996). Our argument is that, relative to non-populist regimes, *populism critically exacerbates this short-term policy bias* by (a) “speeding up” the policy benefits, i.e. shortening the temporal gap between policy adoption and the perception of benefit receipt by the populist’s electorate, and (b) further increasing the size of (delayed) policy costs, i.e. lowering the net present value of a given policy’s economic impact.

The mechanisms generating this short-term policy bias include three demand-side factors and one supply-side factor. Consider the demand for policy first. As anti-establishment candidates, populists come to power during *deep crises* of the status quo when the “political class” cannot offer credible solutions to voters. The voters’ openness to unorthodox (populist) solutions here
implies a great urgency on the part of the electorate, often born of acutely experienced deprivation (Barr, 2009). There is, to paraphrase, little patience for empty promises and politics as usual. Nowhere does Keynes’ famous dictum “in the long run we are all dead” ring louder than in the heart of a populist voter.

The second demand-side factor concerns the legitimacy of political candidates. As argued previously, populists as “outsiders” often rely on personal charisma. However, charisma alone is a fickle foundation of political support. Populists need policy “wins” – and fast – to prove to their constituents that they were right to “trust their gut” by betting on a politically unknown quantity.

The third demand-side factor suggests that voters may, at times, prefer incompetent candidates who, in turn, are more likely to adopt starkly unsustainable policies. While voters generally value candidate competence, this may not be the case under populism. Di Tella and Rotemberg (2018) model and provide evidence for “demand for incompetence as insurance against elite betrayal” (p. 988), their main argument being that if voters think that a competent candidate may use her skills against voters’ benefit if elected, they may prefer an incompetent candidate who entirely depends on her electoral base.

Finally, a supply-side factor explains why the (long-term) economic costs of populist policies typically far eclipse their (short-term) benefits (Dornbusch and Edwards, 1991). Recall that populist de-institutionalization sidelines technocratic policy experts. As a result, they are more likely to ignore the real long-term costs of policies that promise to deliver the (urgently needed!) short-term benefits to their constituents. This process is often reinforced by the personal qualities of populist incumbents who, as outsiders, typically lack the proper experience to identify and execute sustainable policies. Surveying right-wing European populism, The Economist observes
that “those who are most willing to lead upstart movements are often the least suited for the long-term task… Traits that lend themselves to insurgency do not translate well into governance.”

It is important to recognize that while populist policy bias creates problems in the long run, it inevitably creates short-term winners who become vested interests in the system (Hellman, 1998). Short-term policy winners under the populist regime thus actively support both the anti-establishment ideology and the ongoing de-institutionalization (since these processes enable the policy bias benefitting the winners).

**The Populist Syndrome**

The populist syndrome is a mutually reinforcing set of beliefs, institutional processes, and policy-making logics featuring an anti-establishment ideology, de-institutionalization, and short-term policy bias. Figure 1 identifies nine specific interdependencies between these core elements, highlighting the utility of conceptualizing distinct institutional and policy-related consequences of populism as a unified “syndrome”. Meanwhile, Figure 2 provides an illustrative timeline of the populist syndrome, differentiating between left- and right-wing cases, since the end of the Cold War. This figure presents cases where all three core elements of populism, as conceptualized here, have been well-documented.

[FIGURES 1 & 2 HERE]

---


7 Our conceptualization is an “ideal type,” i.e. a construct with clearly identified dimensions to advance theory-building. Real-life cases of the populist syndrome will, of course, vary along these dimensions.

8 Our approach to selecting the cases for Figure 2 consists of (a) identifying an anti-establishment ideology among the populist incumbents based on the Global Populism Database which measures the level of populist discourse in the speeches of country leaders; (b) identifying patterns of de-institutionalization, if any; and (c) identifying short-term policy bias and associated costs for firms, if any. The list of secondary literature which we use for (b) and (c) can be readily provided for all cases.
Political Risk for Firms

The populist syndrome evolves over time, as the linkages identified in Figure 1 take hold. While anti-establishment ideology defines populist regimes immediately after the assumption of power by a populist leader, de-institutionalization and short-term policy bias take longer to manifest themselves. Taking this dynamic process into account, this section outlines the evolution of distinct political risks generated by the three core elements of the populist syndrome.

As a consequence of their anti-establishment ideology, populist regimes are built on cleavages between insiders and outsiders. Such emphatic “us vs them” ideology leaves little scope for neutrality or nuance in terms of how important socioeconomic actors are perceived by the regime. Thus, when a populist assumes power, firms will see themselves cast as insiders (part of “us”) or outsiders (part of “them”). How firms become categorized is largely a function of how structurally aligned their activities are with the new populist regime and its agenda, i.e. the extent to which the firms’ market activities promote the interests of the regime and its “people”.

Differences between right- and left-wing populism help shape the categorization of firms as insiders versus outsiders. Right-wing populists, who typically prioritize national economic sovereignty and interests, are likely to cast as insiders those firms that orient their value adding activity (jobs, investment, R&D, taxes) more towards the domestic market. Thus, small and medium businesses, whose operations tend to be less internationalized, often win favor with right-wing populists. The early-stage Erdoğan regime in Turkey, for example, lionized SMEs and benefited them by reducing red tape and facilitating access to government contracts for new entrepreneurs (Buğra and Savaskan, 2012). Conversely, right-wing populists are likely to cast as outsiders foreign multinationals and domestic firms that locate much of their activities abroad (and hence lack loyalty to the homeland and its people). Similarly, right-wing populists such as Orbán,
Putin, or Erdoğan have fought to limit the sway of foreign creditors over their respective economies.⁹ Right-wing populists’ concern with projecting influence abroad may also elevate to insider status national businesses that generate strategic advantage, strength, and prestige for the state on the international stage.

By contrast, under left wing populism, firms that enhance economic opportunities and access to jobs, investment, products, and services for the poor and lower classes are likely to be treated as insiders. In addition, because governments often have limited capabilities and resources, firms that help the government deliver goods and services to the poor are also structurally aligned insiders under left-wing populism. Often, state-owned enterprises fall into this category while privately owned competitors are deliberately marginalized. On the other hand, firms that are seen as primarily advancing the interests of the country’s historical economic elites are viewed as outsiders. Thus, for example, the “democratic and cultural revolution” proclaimed by Evo Morales and the rewriting of the constitution of Bolivia directly threatened the country’s established business elites by promising an immediate redistribution of land to benefit the poor (Wolff, 2016).

How exactly may firms perceived as part of “the establishment” – i.e. as outsiders – be targeted by the populist regime? We argue that outsider firms face two specific risks connected to the populist ideology. First, “establishment firms” may be de-legitimized by the populist incumbents. Thus, firms may, for example, be cast as “anti-labor” or “unpatriotic,” depending on whether the populists are drawing on left-wing and/or right-wing ideological scripts. Sometimes, this vilification is sector- or group-based. But the condemnation may also single out and shame

individual firms, as did president Trump when attacking General Motors on Twitter for the company’s Mexico-based production line (“Make in U.S.A. or pay big border tax!”).  

Second, and more tangibly, these outsider firms may be harmed by regulations and policies adopted by the populist regime. To be consistent with the anti-establishment ideology and the de-legitimization of outsider firms, these policies will be discriminatory and/or exclusionary, exacting greater costs (e.g. taxes, performance requirements) and affording fewer benefits (e.g. state contracts and subsidies) to outsider firms than to insider firms. For example, Hungary’s president Orbán has subjected foreign investors to “punitive taxes… and unpredictable regulation”.

Of course, the flipside of these risks to outsider firms is that populist regimes provide opportunities to insider firms. The regime legitimizes insider firms, e.g. as being pro-labor or patriotic. It also favors insider firms through policies and regulations (either explicitly and/or as a byproduct of an unlevel playing field created through outsider discrimination).

De-institutionalization and short-term policy bias suggest that – as the populist incumbency matures – political risk will increase over time due to the evolving nature of governance (how policy decisions are made) and the impact of policy (the costs of policies for economic actors). To begin, populist de-institutionalization does not happen overnight. Initially, it unfolds within the institutional parameters of democracy. This may occur, for example, via the sidelining of technocratic experts, or the rhetorical attacks on institutions that intercede between the populist incumbent and “the people.” Thus, the creeping personalism of the populist syndrome incubates within the formal constraints of democracy before hatching – however, if unchecked, this process increasingly rattles and destroys the institutions of democracy and rule of law. Indeed, the

---

11 https://www.ft.com/content/e0c44550-0ad2-11e6-b0f1-61f222853ff3
processes of institutional avoidance, subversion, and elimination conceptualized earlier often unfold in stages and build on each other.

Our framework suggests that, thanks to de-institutionalization, the trajectory of the populist syndrome approaches erratic authoritarianism over time, with the key risks to firms comprising the declining protection of property and contractual rights, corruption, and politicized law enforcement. From the firms’ perspective, a late-populist autocracy (such as Russia or Turkey) may look appreciably different from a non-populist autocracy (such as Cuba or Saudi Arabia). While the general lack of veto points relative to democracies obtains in both cases, our framework indicates a key difference. Research on authoritarian regimes (for an overview, see Pepinsky, 2014) shows that the degree of their institutionalization varies widely, depending on whether such regimes are party-based (Vietnam), dynastic (Saudi Arabia), military (Myanmar), or personalistic (Suharto’s Indonesia). In our case, late-populist autocracies generally constitute a subset of personalistic authoritarian regimes where the institutional constraints on the incumbent are (even) lower than in non-personalistic autocracies (in which the incumbent is still constrained by an authoritarian party, the military, or the dynastic tradition).

Outsider firms will still be targeted as de-institutionalization takes hold. However, the progressive loosening of constraints on the populist incumbent, e.g. the declining importance of her electoral base, explains why the privileged status of insider firms becomes more precarious too. For example, Putin’s regime in Russia has harmed the erstwhile insider firms (that had previously benefitted from Putin’s early emphasis on Russia-oriented as well as geopolitically useful firms) through the expropriatory schemes of institutionally unchecked governmental security services (Markus, 2017). While political favoritism benefitting the insiders does not
disappear, insider firms can be more easily ‘unfriended’ by the populist incumbent freed from institutional constraints.

Finally, short-term policy bias involves increasingly unsustainable and/or incompetent policy-making, whose main risks to firms are macroeconomic and sociopolitical instability. Empirically, such short-term policy bias has been well-established for left-wing populism in Latin America featuring unsustainable macro- and micro-policies to attain instant redistributive effects with devastating long-term consequences. In the long run, such policies hurt the group they were designed to help, i.e. the lower class. By ignoring constraints on public sector expenditure and monetary expansion for political gain, at times combined with nationalizations and expropriations, left-wing populist policies typically accelerate inflation, trigger capital flight, and necessitate currency devaluation (Dornbusch and Edwards, 1991), contributing to policy unpredictability and, in extreme cases, long-term economic decline accompanied by increases in poverty, crime, and sociopolitical turmoil.

Our theoretical framework shows why right-wing populism, too, exhibits short-term policy bias. This bias, we argue, is driven by the logic of populist policy-making that extends beyond left-wing policy content. In the case of right-wing populism, the consequences of economic isolationism and/or geopolitical and military adventurism (which can paradoxically coexist in the nationalist ideology) may, in the long run, result in the loss of foreign markets and FDI; the loss of foreign human capital; geopolitical instability; and budget shortfalls (Van der Waal et al., 2018). When asked which economists supported Brexit, for example, the UK cabinet minister Michael Gove responded that “people in this country have had enough of experts.”12 Russian firms

---

12 https://www.ft.com/content/3be49734-29cb-11e6-83e4-abc22d5d108c
meanwhile have suffered under the heavy fallout from sanctions as a result of Putin’s military adventurism abroad. Overall, short-term policy bias is not a prerogative of left-wing populists.

As with de-institutionalization, the negative impact of the short-term policy bias on political risk exhibits a temporal lag, materializing later in the populist incumbency. Thus, overall, the cumulative level of political risk to firms grows in late-stage populism as the linkages between the three core elements of the populist syndrome (Figure 1) deepen, and as the long-term fallout from de-institutionalization and short-term policy bias intensifies.

We can now summarize the political risk profile of populism:

**Proposition 1**: As the populist syndrome develops, it progressively generates the risks of de-legitimization, regulatory discrimination, the weakening of property and contractual rights, policy unpredictability, as well as sociopolitical and macroeconomic instability, with outsider firms being disproportionately affected.

**NONMARKET STRATEGY UNDER THE POPULIST SYNDROME**

We focus on two particularly prominent nonmarket activities highlighted in the literature: political connections and investments in CSR. Our goal is to derive propositions of sufficient generality about the effectiveness of these activities under populism. To this end, Propositions 2 and 3 outline “first order” relationships, examining the relative payoff from a given level of investment in political ties and CSR in populist regimes as compared to non-populist regimes. Propositions 4 and 5 go further to examine variation within populism. Proposition 4 examines the relative payoff from investing in particular modalities of these nonmarket activities (concealment for political ties and constituency-building for CSR) for outsider firms as compared to insider firms. Meanwhile,
Proposition 5 examines the relative payoff from a given level of investment in particular modalities of these nonmarket strategies depending on regime durability. Table 1 summarizes all propositions.

[TABLE 1 HERE]

To make our modelling more tractable, we make two assumptions. First, we restrict firms’ choice to different investments in nonmarket strategies but we do not consider complete exit from the market: in other words, we assume that operating in a populist regime is still net-beneficial for the focal firm. Second, we assume that policymakers are driven by power maximization.13

**Strategic Political Connections & the Populist Syndrome**

Firms’ ties or connections to political actors span a broad range of phenomena that may include interpersonal relationships and networks; formal organizational linkages (e.g. government as a shareholder); personal-organizational linkages (e.g. politicians on corporate boards); or ‘revolving door’ arrangements (executives moving between government and corporate roles) (Sun et al., 2012). Theoretically, what unites these diverse manifestations of political ties is their long-term, ongoing nature which facilitates trust and relationships transcending the immediate policy issues of the time – as compared to transactional exchanges that are more fleeting and focused.

In a growing area of research, scholars studying both developed and emerging markets have highlighted the importance of firms’ relationships with political actors such as elected representatives, political elites and bureaucrats (e.g. Peng and Luo, 2000; Leuz and Oberholzer-Gee, 2006; Faccio et al., 2006; Hillman, 2005; Fisman, 2001; Bertrand et al., 2018). Political

---

13 This is a standard assumption in the vast literature on political economy. While we follow it to simplify our modeling, we recognize that some populist leaders may be genuine ‘believers’ in their cause.
connections are important because they facilitate the exchange of favors and information between firms and political actors (e.g. Hillman and Hitt, 1999; Faccio et al., 2006; Tihanyi et al., 2019) with multiple studies finding that political connections benefit firms in terms of better access to state resources, and favorable policies and oversight (e.g. Johnson and Mitton, 2003; Leuz and Oberholzer-Gee, 2006; Fisman and Wang, 2015). However, the value of political ties to firms is not always assured\(^\text{14}\), which raises the question of political ties’ effectiveness in populist regimes.

When a populist government comes to power, most firms are unlikely to have strong ties to the new regime. Recall that populists often come to power as outsiders who are not part of the traditional political establishment. Hence, politically active firms will typically have pre-existing ties to influential political actors challenged by the new populist government. Given that political ties are not costless, should firms seek to establish them with the populist incumbents? More broadly, how effective are political ties under populism as compared to non-populist regimes? We argue that political ties are indeed more effective under populism due to the specific features of the populist syndrome. Below, we elaborate three mechanisms to support this argument.

\textit{Policy Uncertainty}

Populist leaders are elected to disrupt the status quo, i.e. the legacy of political establishment. As such, they will be more inclined than previous leaders to fundamentally change policies governing the economy upon taking power. As political newcomers, populist incumbents will be particularly eager to score short-term results, so as to prove themselves to their electoral base, further heightening potential for drastic policy shifts. Finally, as deinstitutionalization progressively

\(^{14}\) Shifts in the market environment may render specific ties obsolete in terms of their value while firms can find it difficult to unwind the ties, hence staying locked into costly yet useless arrangements (Sun et al., 2010; Uzzi, 1997). Shifts in the political environment may be even more harmful by triggering retribution by new powerholders against firms linked to the ancien régime (Markus and Charnysh, 2017; Siegel, 2007).
removes institutional constraints on policymaking, it will further free the populist leaders to personalize policymaking, making the latter more erratic and unpredictable.

Against this backdrop, political ties will prove invaluable to firms seeking to buffer themselves from potentially severe policy volatility. In particular, political ties help firms anticipate and proactively adapt to shifting policies (Oliver and Holzinger, 2008; De Villa et al., 2017) because they grant firms access to leaders, which in turn enables firms to be better informed about government policies and preferences (Hillman, Zardookhi and Bierman, 1999).

Furthermore, in more volatile and uncertain policy environments, firms are more likely to engage in political activity and participate in the political process so as to better control their environment and influence the political process to protect their interests (Meznar and Nigh, 1995; Oliver and Holzinger, 2008; Holburn and Zelner, 2010; Li et al., 2006). Political ties are significant in this regard because they provide an opportunity for firms to lobby directly for their preferred policies and to do so more effectively as, through repeated engagement over time, they build trust with political leaders (Hillman and Hitt, 1999; Sun et al., 2012) and better understand the patterns of behavior and preferences of policymakers (Bonardi et al., 2006).\textsuperscript{15} Even firms that already have ties to the populist leadership will seek to deepen and strengthen those ties once they are elected, as privileged access may afford them a competitive advantage over their peers in terms of information and influence (see Siegel, 2007).

Beyond policy uncertainty, the decay of institutions means that firms cannot rely on impartial adjudication if they have a dispute with the state. The failure of institutions such as courts to effectively intermediate state-business conflicts puts a higher premium on direct political ties for the focal firm.

\textsuperscript{15} A broad body of scholarship on CPA has recognized the importance of access as a prerequisite for lobbying.
Overall, given the potentially extreme policy uncertainty and institutional weakening under populism, political ties are likely to be more effective due to the superior information, access, and policy impact such ties can provide – as compared to the non-populist regimes where transactional exchanges with policymakers are more likely to suffice on average.

**Legitimacy Challenges**

One could posit that in a risky environment, firms might eschew political ties to maintain a low profile (De Villa et al., 2017) and only engage in political activity if and when their interests are directly challenged (Hillman and Hitt, 1999). However, this is a precarious approach under populism because of its divisive – “with us or against us” – ideology. While firms may seek to stay neutral, their failure to actively align with the government is likely to be interpreted as hostility by the populist leadership. Similarly, non-engaged forms of CPA such as avoidance or circumvention of government policies (De Villa et al., 2017) can exacerbate political risk because such behavior is viewed as a challenge to the populist government.

In a normatively charged environment, ties to populist leaders should help firms to build and maintain their political legitimacy, i.e. the perception by the government that the firm and its activities are desirable or appropriate (Zhao, 2012). Past research has argued that building linkages to major political institutions and elites can help firms obtain greater legitimacy with key stakeholders (Baum and Oliver, 1991; Peng, Lee, and Wang, 2005; Boddewyn and Brewer, 1994; Hillman and Wan, 2005; Kostova et al., 2008; Bucheli and Salvaj, 2017).

The legitimacy of key political actors, including politically active firms, is anchored differently in populist regimes as compared to non-populist liberal democracies. In non-populist

---

16 In considering an organization’s legitimacy, it is important to take into account the position, perspective and interests of the stakeholder(s) making the evaluation of the firm (Bitektine, 2011).
democracies, actors are legitimated through their adherence to institutionalized processes (e.g. the observance of election results for politicians, or the compliance with campaign contribution disclosures for firms), even if they sharply disagree with political incumbents. Populist ideology, on the other hand, discredits ‘established’ institutions (as elaborated previously) stressing instead the direct links between the leader and ‘the people’. For firms, this means that personal loyalty to the populist leadership becomes paramount as a basis for political legitimacy. Given that political ties represent both a reservoir and signal of trust, such ties should endow firms with political legitimacy in the personalized (i.e. de-institutionalized) politics of populism.

Another pathway to secure political legitimacy is through early compliance with new institutions created by the government (Oliver, 1991), which requires early information about shifting policies. Here, too, political ties should yield benefits to firms under populism where the government is particularly likely to create new organizations (e.g. political parties or business associations) or policies to replace the legacy structures of the establishment.

So far, we have argued that cultivating political ties with populist leadership should help firms mitigate the risks of delegitimization under populism. However, given the premium on loyalty and the Manichean interpretation of political life by the populist leaders, such ties may not be enough – firms might benefit from distancing themselves from the political opposition, too – or suffer from not doing so. It is common for firms in competitive democratic settings with regular leadership turnover to diversify their ties across different political parties, so as to hedge against the risk of being disadvantaged when ‘their’ party is out of government (Fisman, 2001; Siegel, 2007; Leuz and Oberholzer-Gee, 2006; Goldman et al., 2009), or to secure influence when political power is divided and different parties control different branches of government (Zhu and Chung, 2014). As per our previous discussion, populist incumbents are unlikely to tolerate such a
diversified approach to political connections, especially with members of the ‘old guard’.\textsuperscript{17} Thus, to build and maintain political legitimacy, firms need not only develop deep, ongoing relationships with the populist government, but they must also distance themselves from the government’s political opponents. If firms already have strong political ties to those outside of the populist regime, it can be difficult to build such distance, particularly when those political ties are embedded in a broader network of social connections (Leuz and Oberholzer-Gee, 2006; Zhu and Chung, 2014). Nevertheless, firms can still take steps to publicly distance themselves from other political leaders or make their connections to the governments’ opponents less visible (Markus and Charnysh, 2017). For example, in light of the heavy criticism and blame directed by populist president Andres Manuel Lopez Obrador towards Mexico’s neoliberal era, Spanish energy producer Iberdrola “accepted the resignation” of one Mexico’s leaders during that period, former president Felipe Calderon, from its board of directors.

\textit{Veto Points}

The third mechanism enhancing the effectiveness of ties to political leadership under populism rests on the notion that as power is increasingly centralized in the upper executive – both relative to political opposition and to bureaucracy –, firms simply have ‘nowhere else to go’ in order to be informed about or influence policy. As the number of veto points or alternative loci of power dwindles, firms will find their ties to the remaining locus of power – the populist incumbency – to be increasingly valuable.

\textsuperscript{17} Bucheli and Salvaj (2013,2017), and Darendeli and Hill (2016) make a parallel argument suggesting that multinational firms’ connections to previous institutional orders and political elites may be a source of illegitimacy in the aftermath of institutional change.
In line with previously mentioned research on the importance of hedging firms’ political bets, scholars have emphasized a portfolio of ties to different political actors (Zhu and Chung, 2014) particularly since policies are not just shaped by political leaders (e.g. members of parliament, cabinet ministers/secretaries, political appointees), but also by bureaucratic agencies (Bonardi et al., 2005, Holburn and Vanden Bergh, 2008) which play a central role in policy implementation and in supporting the effective operation of markets (Evans and Rauch, 1999). Moreover, bureaucrats’ policy preferences seldom align perfectly with political leaders (Holburn and Vanden Bergh, 2008), and they often can act independently of the political leaders to whom they are accountable (McCubbins et al., 1987). Thus, firms often build connections with civil servants as well as political leaders (Darendeli and Hill, 2016).

While policy uncertainty and legitimacy challenges present a rationale for why firms should build relational ties with the populist leadership, firms must also consider the necessity of making adjustments to their broader portfolio of ties when a populist government comes to power. We argue that in addition to building relationships with the populist leadership, firms will also divest from ties to its political rivals as well as state bureaucrats. Populist de-institutionalization is prone to marginalize both political opposition and technocratic bureaucracy, as argued previously. Given that the maintenance of political ties requires resources, firms will be averse to expend them on actors who are unlikely to have decision-making power over the relevant issues. At the same time, as the scope of policy decisions on which the populist leadership can ‘weigh in’ widens (consider president Trump’s attempts to interfere with decisions at the Federal Reserve Bank or the CDC, for example), firms may derive more value for every unit of resources invested in ties to political leadership.
In sum, political uncertainty, legitimacy challenges, and diminishing veto points are the key theoretical mechanisms differentiating the relative value of political ties in populist regimes:

**Proposition 2:** Relative to non-populist regimes, firms’ nonmarket strategy in populist regimes will be more effective when it (a) develops ties with political leadership; (b) divests from connections to bureaucrats; and (c) actively distances firms from political opposition.

While Proposition 2 assumes that the populist regime will last over time, we relax this assumption in Proposition 5 where we also consider the possibility of covert ties in fragile populism.

**Strategic CSR & the Populist Syndrome**

A second nonmarket strategy that can mitigate firms’ exposure to risks under populism is CSR, defined as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams and Siegel, 2001, p.117). While there is a broad literature that investigates the determinants of CSR and the extent to which CSR activities generate market returns for firms (Orlitzky et al., 2003; Barnett and Salomon, 2012), our focus here is on CSR as a risk management tool. However, in contrast to past research that has focused on CSR as an insurance mechanism to protect shareholder value when firms experience negative events (Godfrey, 2005; Godfrey et al., 2009) we focus on how CSR can help firms manage the political risks that emerge under populism (Markus, 2012). We view CSR through an instrumental lens emphasizing the ability of CSR to help firms meet the demands of stakeholders (McWilliams and Siegel, 2000; Hillman and Keim, 2001).
Legitimacy Challenges

Periods of institutional flux present firms with particularly severe legitimacy challenges (Henisz and Zelner, 2005). CSR initiatives, just like political ties, can help firms maintain political legitimacy under populism. While Proposition 2 addressed the importance of nonmarket activities directly focused on the leadership, here we turn attention to “the people” who, of course, are central to populist ideology.

As before, we are interested in the legitimacy of the firm in the eyes of political leadership. We argue here that cultivating the main constituencies of political leadership, i.e. the array of stakeholders in whose name populist leaders (claim to) govern and who form the basis of their power, rather than the leadership directly, can also help firms gain political legitimacy.

The classic forms of legitimacy are pragmatic, moral and cognitive (Suchman, 1995). Cognitive legitimacy – based on a ‘taken for granted’ quality – is difficult to secure for firms during institutional flux (Henisz and Zelner, 2005). This holds true for firms under populism, particularly in its early period, when the thin ideology of populism causes its leaders to enter a broad but uncertain re-examination of organizations and their conduct to evaluate their consistency with the new but often inchoate populist ideology.

However, firms can address the risks of delegitimization through the pursuit of pragmatic and moral legitimacy. Moral legitimacy results from a positive normative evaluation of the firm by stakeholders, while pragmatic legitimacy emerges from the advancement of stakeholders’ interests. CSR initiatives under populism can help firms accomplish both.

First, given that populist leaders claim to govern in the interests of the people (indeed, the leaders’ own legitimacy rests on that claim), these leaders are likely to view corporate conduct that caters to the needs of these ‘people’ as morally appropriate. It is worth recalling here that while
‘people’ is an all-encompassing category, in reality, populist regimes will inevitably prioritize certain segments of the population. For example, if the regime favors labor, then the middle class and capital are less critical to its power maintenance. Further prioritization can occur within these segments, either based on need (e.g. workers or regions most in need of assistance), or on expediency (e.g. groups most valuable politically). Thus, we expect firms that invest in having a more positive environmental and social impact on the government’s prioritized constituencies are more likely to be viewed as morally legitimate in the eyes of the populist leadership.

Second, by benefiting various societal stakeholders, CSR activities can strengthen the public’s approval of the government and serve the interests of the populist leadership thereby helping firms attain greater pragmatic legitimacy vis-à-vis the leadership. This is particularly so when firms engage in CSR activities in partnership with, or under the auspices of, government agencies (Zhao, 2012; Beddewela and Fairbrass, 2016), thus helping the government satisfy the needs of stakeholders and constituents they deem important.

As populism advances and the populist government’s short-termism leads to deteriorating economic conditions and a diminished ability to provide public goods, firms can also further leaders’ interests by filling the gaps in state capacity via CSR initiatives. From the populist leaders’ perspective, this is particularly advantageous if the leaders can take credit for pushing the firms to ‘do their part’ – hence yielding greatest payoff in terms of pragmatic legitimacy to firms.

In non-populist democracies institutionalized processes confer legitimacy on political leaders hence reducing the need for firms to engage in CSR for political leaders’ sake (firms, of course, may have other reasons to do so). Conversely, under populism, the direct and total reliance of populist leaders on their constituencies (unmediated by representative institutions) – at least early in the populist incumbency – enhances the value of CSR as nonmarket strategy.
Political Ties via CSR

CSR activities can also help firms strengthen political ties. CSR can give firms the opportunity to interact with government officials regarding economic, environmental, and social issues (Hansen and Mitchell, 2000; Su and He, 2009), particularly for those CSR activities that are in partnership with the government and help the populist leadership progress towards socioeconomic objectives they value (Beddewela and Fairbrass, 2016).

In addition, politicians may be more willing to associate with firms with a strong CSR reputation as such association is less likely to harm politicians’ reputations and may afford them the opportunity to access firms’ valuable information regarding environmental and social issues that are important to their constituents (Werner, 2015).

Populist leaders espousing an anti-elite ideology may be particularly sensitive to being tarred by association to large and profitable enterprises. Thus, CSR under populism can be particularly helpful in helping firms gain political access. Furthermore, since political ties as such yield greater value under populism (Proposition 2), the positive relationship between CSR and political ties hypothesized here suggests that CSR, too, should be particularly attractive to firms in populist regimes.

This dynamic is exemplified by the involvement of private sector players in multiple government-aligned associations and foundations established in Turkey during Erdoğan’s tenure. For instance, members of the Sabanci family are among many businesspeople that are donors to the Social Development Center-Education and Social Support Association (TOGEMDER) established by Erdoğan wife, Emine Erdoğan.18

---

Constituency-Building

While CSR can help firms to be perceived positively by populist leadership or to gain access, as argued above, it can also help firms build supporting constituencies among the general population independently of populist leadership. Such ‘stakeholder alliances’ (Markus, 2012) can be critical for two reasons. First, they can help defuse potential social mobilization against the firm. Second, they can be mobilized by the firm against hostile initiatives by the populist government.

Often viewed as an indirect or more covert form of political activity, constituency-building entails building a base of support for the firm and its preferred policies among the population through grassroots mobilization, advertising, public relations and education programs and lobbying those supporters to advocate in favor of the firm with policy makers (Hillman and Hitt, 1999; Walker and Rea, 2014). As CSR activities are often organized to meet the social and environmental demands of societal stakeholders (O’Riordan and Fairbrass, 2014; Jamali, 2008; McWilliams and Siegel, 2000), if successful, they can help firms build stakeholder support for their political initiatives and make it easier for firms to mobilize civil society actors to advocate on their behalf (Markus, 2012, 2015).

In addition, CSR activities can be explicitly used to reshape stakeholders perceptions of the firm and the appropriate forms of regulation of firm-relevant issues (Fooks et al., 2013; Walker and Rea, 2014). CSR can also help discourage societal actors from politically mobilizing against the firms’ interests and ward off unwanted changes in public policy that may result (Werner, 2012; Walker and Rea, 2014; Henisz, Dorobantu and Narrey, 2014).19

While CSR, constituency-building, and stakeholder mobilization are not unique to populist settings, we argue that their value is particularly high under populism. Recall, that populist leaders

---

19 This is consistent with a stakeholder management perspective (Freeman, 1984), in which firms employ CSR in order to manage their relationships with societal actors.
claim to advance the interests of the people and to represent their will. In such circumstances, being able to generate support and goodwill among the people (as defined by the populist regime) can become a crucial tool of influence and risk mitigation. In an environment where policy volatility is high, a firm that is accepted and liked by the people is less likely to be targeted politically by a populist government.

Moreover, popular support is particularly valuable in the wake of populist deinstitutionalization where firms have fewer sources of effective institutional recourse (e.g. the judicial system) if they are targeted by the government. CSR-based stakeholder mobilization in emerging markets has been shown effective even against political regimes that are starkly hostile towards focal firms (Markus, 2012). To be effective for such constituency-building, however, CSR investments must fulfil a number of criteria (Markus, 2015). Specifically, they must be: sizeable enough to offset the non-negligible risks for the recipients in mobilizing on the firm’s behalf; traceable to a specific firm, i.e. not routed through NGOs or done anonymously; and seen as voluntary so as to preclude credit-taking by the political regime for the company’s CSR.

**Proposition 3:** Relative to non-populist regimes, firms’ nonmarket strategy in populist regimes will be more effective when it features CSR investments, particularly investments that (a) focus on initiatives prioritized by the regime, and/or (b) focus on initiatives that can be leveraged for constituency-building.

Overall, whereas other studies have highlighted the political value of a firm’s ties to elites or influential firms (e.g. Delios and Henisz, 2000; Darendeli and Hill, 2016), we argue that under populism cultivating a strong relationship with the leadership and the public is comparatively more valuable. Next, we go beyond these first-order propositions to consider important extensions.
Outsider Firms & the Populist Syndrome

Propositions 2 and 3 did not differentiate among firms. However, recent work has drawn attention to the potential for political risks (Blake and Moschieri, 2017; Markus and Charnysh, 2017) and political behavior (Lux et al., 2011) to vary across firms. This pertains especially to populism where, we argued, the key distinguishing feature between firms is the extent to which they are branded as outsiders by the regime.

As outsider firms are more exposed to risks under populism, a logical extension of our theory would be to expect outsider firms to more aggressively pursue political connections. However, populist leaders are comparatively unreceptive to outsider firms’ efforts to build connections. Political leaders are cautious about associating with firms with a negative reputation or stigma (McDonnell and Werner, 2016), and in the context of populism outsider firms are stigmatized (as linked to ‘the establishment’). Thus, leaders may avoid outsider firms lest they be accused of not being sufficiently committed to their populist position or be seen as cultivating ties that are illegitimate within the context of their ideology (Baum and Oliver, 1991). Moreover, while association with political leaders can help firms accumulate political legitimacy, populist leaders may be reluctant to confer such legitimacy on outsider firms as it would contradict the ‘us vs them’ dichotomy on which populist ideology relies.

Jia et al. (2021a) show that political leaders in similar circumstances actually face a tradeoff. On the one hand, they would prefer to gain the resources implicit in the firm’s political activity (e.g. campaign contributions or information). On the other hand, they are wary of losing the support of their constituents (e.g. votes) for associating with firms that are seen as unpalatable. Crucially, this tradeoff is resolved if the focal company’s political activity is concealed or secret.
(Jia et al., 2021a). If the company’s political activity is not public knowledge, the focal politician need not fear losing electoral support.

We apply this argument to populism. Populist leaders would only be punished by their base for their hypocrisy in accepting resources from ‘establishment’ firms (note that such resource transfer is necessary to establish political ties) if the base knew about it. At the same time, since resource accumulation is critical to politicians’ power maintenance, they should be much more amenable to outsider firms’ attempts to establish ties if these are attempts are concealed.

Firms can conceal their political activity through two general strategies (Jia et al., 2021a). First, organizational concealment strategies involve inserting an intermediary (such as a business association, a lobbying firm, or a think-tank) between the focal firm and its target policymaker. Second, informational concealment strategies work through the direct manipulation of information on political activity (e.g. through astroturfing, media exclusion, or doctoring of web search results).

We argue that outsider firms are likely to rely on organizational concealment strategies when forging political ties to populist leadership. Any active concealment of political activity involves the risk of detection and backlash costs (Jia et al., 2021a) which, in the case of outsider firms, would mean their further delegitimization (essentially cementing their ‘enemy’ status). Since outsider firms face a legitimacy deficit to begin with, they should be quite sensitive to this risk. Informational concealment strategies should be particularly detested as they involve deliberate misrepresentation (Suchman, 1995). Meanwhile, organizational concealment is relatively benign and should be preferred by outsider firms. In fact, it may even improve outsider firms’ legitimacy as a side benefit, e.g. if the firm joins a widely accepted business association,
which would conceal the specific firm’s political activity and help it gain legitimacy. Business associations are a common venue for firms to engage with government actors (Rajwani, Lawton and Philips, 2015) and participation in regime-aligned associations can tacitly signal acceptance of the firm by the populist government (Markus, 2007).

In their quest to keep their political ties covert, so as to alleviate pressures on populist leaders from their constituents, outsider firms should also prefer informal links (such as personal relationships) to formal ties (such as having politicians on boards). While formal ties are visible and rule out plausible deniability for the policymaker, informal ties are easier to conceal.

**Proposition 4a: Outsider firms’ political ties in populist regimes will be more effective when they are concealed through organizational strategies and informal linkages.**

Firms’ outsider status implies some modifications to their CSR strategies as well. In particular, since outsider firms are more likely to be targeted by the regime and are less able to openly engage with the populist leadership, the previously mentioned potential of CSR to build constituencies as alternative avenues of influence that could be leveraged against the regime (Markus 2012, 2015) should be especially valuable for outsider firms.

But how feasible is it for outsider firms to build constituencies in a populist regime? After all, they are outsiders whose legitimacy is questioned. Still, given that the ideology of populism is often thin and ill-defined, particularly in the early stages of populism, for many constituents the populist ideology and its relation to specific actors will not yet be specified or internalized. This creates space for outsider firms to frame themselves as being aligned with the interests and values

---

20 To the extent that participation in these organizations is practiced by insider firms naturally aligned with the populist regime, outsider firms can recover some degree of legitimacy by imitating the conduct of legitimate organizations (Oliver, 1991; DiMaggio and Powell, 1983).
of various regime constituencies, and potentially even with certain aspects of the populist ideology. A wide body of research has identified framing as an important tactic for mobilizing supporters behind an issue or organization (e.g. Bach and Blake, 2016; Henisz and Zelner, 2003).

Furthermore, multiple regime constituencies may be dependent on resources supplied by outsider firms, depending on the latter’s size and economic impact (Hillman et al., 2009). These constituencies could be (among others) the firm’s customers as well as employees and local communities that benefit from the outsider firm’s activities. If the populist regime’s targeting of an outsider firm also harms these constituencies by reducing the firm’s ability to continue supplying resources on which the constituencies depend, then the latter will be reluctant to question the outsider firm’s legitimacy (Meznar and Nigh, 1995) and will have a material incentive to mobilize on behalf of the firm. Overall, constituency-building via CSR should be both feasible and particularly valuable for outsider firms in populist regimes.

**Proposition 4b:** Outsider firms’ CSR in populist regimes will be more effective when it is leveraged for constituency building.

**Nonmarket Strategy and Durability of the Populist Regime**

Propositions 2-4 outline how firms manage political risk under populism. However, a further risk firms must consider is the likelihood the populist regime will collapse and be replaced by a less-populist, more traditional political incumbency which would reverse the three core elements of the populist syndrome. Here, we consider the sources of populist regimes’ fragility, and what such fragility means for firms’ nonmarket strategy.

As Henisz and Zelner (2005) argue, when new institutional configurations (in our case populism) are introduced to govern social or political life, they will be contested and might not
endure. Populist governments’ push to weaken the institutional hallmarks of procedural democracy, for example, is likely to produce backlash. Furthermore, while their short-term policy bias aims to deliver quick benefits to their constituents, populist campaigns tend to inflate expectations leading to big disappointments – and loss of support – if the policy benefits don’t materialize. For example, in the early years of Erdogan’s leadership of Turkey, the country emerged from an economic crisis to achieve high rates of growth, which helped build support for his populist government and the institutional shifts they have implemented over two decades. By contrast, with the border wall and other electoral promises largely unfulfilled, the populist Donald Trump was succeeded by a more traditional Joe Biden whose embodiment of the pre-populist status quo is evident in his earlier role as Vice-President.

While firms cannot predict with certainty how long a populist leadership will last or how far deinstitutionalization will progress, they can form educated estimations based on several features of political systems prior to the populist takeover. These features may disrupt the populist government’s agenda, thereby threatening its support and preventing the full realization of the populist syndrome. Specifically, the likelihood of populist regime’s survival should be lower in political systems that, prior to populist incumbency, exhibited some combination of (a) robustly institutionalized democracy and rule of law, (b) politicoeconomic stability, (c) well-informed and politically active citizenry, (d) low inequality, or (e) a strong public service ethos among political elites. A voluminous literature in political science (for an overview, see Fukuyama, 2014) suggests these factors as key to halting the institutional decay otherwise triggered by populism and thus limiting the ability of populist leaders to fully exercise their agendas.

The perceived durability of the populist regime should impact how firms manage their political ties and CSR under populism. If firms perceive that the regime’s time in power is likely
to be short, they will be more cautious about forming overt political connections to the populist leadership. Past research has identified the negative effects of firms being associated with previous incumbents once they lose power. These effects include the loss of access to policy rents (Fisman 2001; Johnson and Mitton, 2003) and, in some cases, being the victims of discriminatory policies (Dieleman and Sachs, 2008; Leuz and Oberholzer-Gee, 2006; Markus and Charnysh, 2017). Moreover, changes in leadership, particularly when they are associated with broader institutional transitions, may lead firms with strong ties to the fallen regime to be viewed as illegitimate (Darendeli and Hill, 2016; Siegel, 2007; Bucheli and Salvaj, 2017).

The risks of post-populist political retribution and delegitimization for firms closely tied to a populist government are particularly high for two reasons. First, the divisive “us vs them” rhetoric employed by populist leaders is likely to generate deep acrimony among the populist opponents that can spill over into the post-populist period such that when the populist regime falls, the new leadership may view not just the previous regime, but also those firms that were associated with it, as their opponents. Second, populist leaders don’t just pursue a different policy agenda to their rivals, but they also seek to weaken established institutions that sustain procedural democracy. For many these institutions have moral, cognitive and pragmatic legitimacy, particularly if they have endured for a long time. Thus, after the populist government falls, firms that were closely associated with the regime can become delegitimized and punished because they are seen as being complicit in the regime’s efforts to dismantle institutions that are regarded as the legitimate bedrock of the country’s political system.

Thus, firms under a fragile populist regime face a difficult challenge: they can build or maintain ties with the government to help secure their legitimacy in the present, but doing so can leave them open to future delegitimization, and even stigmatization, in the event of the populist
regime’s collapse or removal from power. Accordingly, we expect that the shorter a regime is expected to endure, the less likely it is that firms will seek to focus their portfolio of political ties on the populist leadership. Maintaining a balanced portfolio with the regime and its political opponents allows firms to avoid being closely associated with the regime while laying the groundwork for political engagement with future incumbents. In other words, a more balanced portfolio of ties will enable firms to hedge against the likely fall of the populist leadership.

However, as the logic underpinning Proposition 2 lays out, there are serious drawbacks to hedging strategies under populism, namely retribution by the populist incumbent. Therefore, we expect firms that maintain a balanced portfolio of ties to keep those relationships as covert as possible (Bucheli and Salvaj, 2017; Markus and Charnysh, 2017). Indeed, firms that perceive populism to be fragile should seek to conceal both their ties to populist leadership (to avoid being punished if populism collapses) and their ties to the opposition (to avoid being punished if populism endures).

**Proposition 5a:** Shorter durability of the populist regime enhances the effectiveness of political ties that are more balanced (targeting not only the leadership but also the opposition) and more covert.

Firms are also likely to hedge their CSR strategies when facing a fragile populist government. Prior work has noted that actions through the “social sector” can help firms develop community ties and have a positive social impact in such a way as to provide firms with a social basis of legitimacy that outlasts the removal from government a leadership with which they have strong connections (Bucheli and Salvaj, 2013; Darandeli and Hill, 2016). However, for this strategy to work, firms need to cultivate open and transparent ties with important social actors that
are not aligned with the regime and engage in social initiatives that have a broader impact on society, and not just the regime and its close supporters (Darandeli and Hill, 2016).

Thus, as in the case of political ties, firms face a tension in managing their portfolio of CSR activities under a fragile populist regime. CSR activities most likely to advance firm legitimacy and influence vis-à-vis the populist regime are those prioritized by the populist leadership or benefitting the regime’s supporters (Proposition 3). However, firms that wish to hedge against the collapse of the populist regime should develop CSR activities in collaboration with, and to the benefit of, a broader set of stakeholders including those that are neglected by the regime. Post-populist governments are unlikely to confer legitimacy on a firm by virtue of its previous CSR initiatives if the latter are seen as having narrowly focused on the populist regime and its interests. Thus, the durability of the populist regime is likely to shape the relative effectiveness of firms’ targeting of CSR strategies.

**Proposition 5b:** Shorter durability of the populist regime enhances the effectiveness of broader CSR, targeting not only projects and constituencies prioritized by the regime but also those neglected by the regime.

**CONCLUSION**

The multidimensional and chameleonic nature of populism has complicated its unified analysis – both as a source of risk and a strategic challenge – for management scholars. Our conceptualization of the populist syndrome distills the logic of populism from the firms’ perspective. While discrete strands of nonmarket literature address some of the political risks common to populism, we show the analytical interdependencies between these risks. In other words, rather than focusing on isolated “symptoms,” we diagnosed the underlying “syndrome” and its strategic ramifications.
Our study raises multiple possibilities for future research. First, while we focused on regimes with populist incumbents, future research can investigate how populist movements or parties may present political risks for firms (e.g. related to legitimacy) even if their leaders never assume formal power. Second, future research can examine other forms of nonmarket strategy, as well as the integrated portfolios of market and nonmarket responses to populism. Finally, further analysis of firm-level heterogeneity and its impact on populist risk mitigation is warranted, including the variance in firms’ economic significance (structural power), asset mobility, or political capabilities.
1. ‘General will of the people’ as legitimacy basis rejects institutional intermediation
2. Moralizing approach to policy discredits ‘established’ (i.e. ‘old guard’) institutions
3. Crisis-rooted ideology necessitates immediate policy benefits for populist constituencies
4. ‘Outsider’ incumbents (not career politicians) need quick policy wins for credibility
5. “Thin” ideology (lacking intellectual foundation) facilitates unsustainable policies
6. De-institutionalization weakens boundaries on permissible political discourse (e.g. via marginalizing independent media)
7. De-institutionalization weakens guidelines for policy-making (e.g. via sidelining technocratic experts)
8. Short-term policy winners become vested interests in de-institutionalization
9. Short-term policy winners become vested interests in anti-establishment ideology
Figure 2: Populist Syndrome after the Cold War
<table>
<thead>
<tr>
<th>P1. Political Risk Profile of Populism:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• delegitimization &amp; regulatory discrimination</td>
</tr>
<tr>
<td>• weakening of property &amp; contractual rights</td>
</tr>
<tr>
<td>• policy unpredictability</td>
</tr>
<tr>
<td>• sociopolitical and macroeconomic instability</td>
</tr>
<tr>
<td>• ‘outsider’ firms disproportionately affected</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REGIME TYPE</th>
<th>FIRM TYPE (within populism)</th>
<th>REGIME DURABILITY (within populism)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>⇒ ties with political leadership</td>
<td>⇒ ties concealed through:</td>
<td>⇒ ties more broadly targeted</td>
</tr>
<tr>
<td></td>
<td>⇒ divestment from ties to bureaucrats</td>
<td>✓ … organizational strategies, or</td>
<td>⇒ ties more concealed</td>
</tr>
<tr>
<td></td>
<td>⇒ active distancing from political opposition</td>
<td>✓ … informal linkages</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>⇒ CSR investments, especially if:</td>
<td>⇒ CSR for constituency-building</td>
<td>⇒ CSR more broadly targeted</td>
</tr>
<tr>
<td></td>
<td>✓ … focused on regime priorities, or</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ … useful for constituency-building</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
REFERENCES


Fukuyama, F. (2014). Political order and political decay: From the industrial revolution to the globalization of democracy. Macmillan.


