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Perspective article

Populism, political risk, and pandemics: The challenges of political leadership for business in a post-COVID world

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ABSTRACT

The examination of political risk, political uncertainty, and political institutions in the international business literature has, not unexpectedly, been shaped by the prevailing issues faced by firms at their time of writing. While these three separate angles together have provided an iteratively more comprehensive view of the politics and business nexus, they are still missing an important component, namely the ability of specific actors to utilize political uncertainty and generate institutional volatility. This paper examines the rise of two specific phenomena that challenge prevailing theoretical frameworks, and potentially have the ability to render our previous insights less relevant: first, the rise of populism as a persistent political force in developed economies, and second, the rapid spread and disparate political response to COVID-19. We argue that exclusively institutional-based frameworks are inadequate to cope with the political realities of the 21st century, as institutions themselves are being subverted or utilized for actions far beyond their original conception in practice and their operationalization in the IB literature (something that COVID-19 has exacerbated). Although extant IB work has much to recommend itself in helping to understand risk and uncertainty in the political sphere, these new challenges for business reveal that we need to incorporate political personalities, actors, and leaders(hip) into our research. Only then can we have a more complete picture of how politics can influence business.

1. Introduction and contribution

One who knows and knows that he knows…
His horse of wisdom will reach the skies.
One who knows, but doesn't know that he knows…
He is fast asleep, so you should wake him up!
One who doesn't know, but knows that he doesn't know…
His limping mule will eventually get him home.
One who doesn't know and doesn't know that he doesn't know…
He will be eternally lost in his hopeless oblivion!
Ibn Yamin (1286–1367) (Translated by Niayesh Afshordi)
The future ain't what it used to be.
Yogi Berra (1925–2015)

In 2016, the election of Donald J. Trump to the Presidency of the United States of America represented a remarkable success for a growing global movement built upon anti-globalization and anti-immigration rhetoric. Coupled with the referendum in the United Kingdom earlier that year to exit the European Union (EU) and the entrenchment of "illiberal democracy" within the EU itself (typified in Poland and Hungary), it appeared that the malaise of "populism" (defined in the majority of the literature as "an anti-establishment orientation, a claim to speak for the people against the elites," see Rodrik, 2018), so common in the developing world, had come to the shores of the advanced democracies. By 2018, the populist wave appeared to be gaining momentum, with an average share of votes for populist and extremist parties across 33 European countries totaling 22.3 % (Timbro, 2019), and countries such as Belgium and Spain seeing up to a quarter of their parliaments comprised of populists (with an even higher share in Switzerland and Poland). The continuing anti-liberal stance of populist governments, and even the influence of populists not formally in power, have radically increased political and economic policy uncertainty globally and have the ability to influence the global environment for decades (Devinney & Hartwell, 2020).

If we fast forward to 2020, the COVID-19 pandemic represented, if not a "black swan" (Taleb, 2007) event, certainly one that has further

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complicated the economic, social and political environment roiled by the rise of populism in leading nations. Originating in Wuhan, China in late 2019 and spreading rapidly across the globe, the pandemic caught the world unaware, leading, at the time of this writing, to over 1.5 million deaths worldwide.[1] Indeed, the only thing that COVID appeared to leave untouched in its wake was the appeal of populism (with the exception of Donald Trump, who was dislodged from his perch in the White House in November 2020, likely as a result of his handling of the pandemic), as anger at the inability of elites across the political spectrum to combat the pandemic, and the apparent limits of existing institutions to deal with the threat, offered an additional avenue for anti-establishment leaders to thrive. For firms, the pandemic has impacted "normal" economic policy and created an uncertain world of lockdowns, prohibitions on social and economic activity, and severe disruptions in supply chains likely to last long past the formally ending of the pandemic itself (see, e.g., McLain, Matthews & Paris, 2021). Despite progress with respect to a vaccine, extreme uncertainty about the future persists, both with respect to the future of the pandemic and the second-order effects caused by government responses, making long-term planning for firms extremely difficult.

These phenomena are the latest manifestations of a reality that the international business (IB) literature has grappled with for five decades, namely that the political-business nexus is fraught with danger for firms. Fowler (1965:3), in a missive that would not be out of place today, warned that "rising tides of nationalism are threatening the growth of multinational businesses – and of the free world economy." In fact, the concept of political risk – and, by extension, the threat of political uncertainty and the efficacy of political institutions – has waxed and waned as a topic of research interest, evolving in a reactive manner and driven by the actual conditions in emerging markets that multinational enterprises (MNEs) faced and the dominant threats of the day. In particular, political risk, defined most broadly as "factors such as instability and direct violence or constraints on operations such as expropriation, discriminatory taxation, public sector competition and the like" (Kobrin, 1979:67), has been a staple of internationalization and MNE literature since the 1960s. At the same time, the concept of political uncertainty, widening the view of political influence beyond discrete policies as noted by Kobrin (1979) and encompassing ongoing instability (Ricks & Czinkota, 1979) and use of probabilistic modelling (Shubik, 1986), put the spotlight on managers as crucial for forecasting political events that might be deleterious for the firm (Sniazhko, 2019). The difficulties faced by multinationals working in different environments motivated subsequent work to concentrate on the role of institutions in mediating incentives (Peng, 2002) and generating political risk in a systematic, yet bounded, way (Mudambi & Navarra, 2002). At the same time, research in these areas became more sophisticated and shifted from a qualitative case-based approach on the influence of politics on business to a more nuanced and quantitative approach, relying on large-scale empirical studies across countries.

However, the phenomenon of populism and the threat of the pandemic present a direct challenge to existing theoretical frameworks, as both phenomena are not only accelerating existing institutional change but potentially serving as originators of new institutional structures and creating institutional volatility (Hartwell, 2018). In particular, the breadth and depth of the success of populist political parties and leaders in winning power and their persistent success over time (Funke, Schularick, & Trebesch, 2020) is partly attributable to their ability to subsume existing institutional levers to their own ends, generating uncertainty rather than dampening it. Similarly, the uncertainty surrounding COVID-19 has resulted in institutions being utilized for goals directly counter to those for which they are theoretically designed (and, in many instances, a removal of the checks and balance meant to keep these institutions more narrowly focused). For example, political institutions in liberal democracies are meant to facilitate free speech, the freedom of assembly, freedom of movement, and freedom to engage in commerce, rights which are all enshrined in founding documents and constitutions. Yet, faced with COVID-19, politicians have been utilizing these same existing institutions to force businesses to close (lockdowns), to break up gatherings of more than a certain number of people, and to restrict internal travel. On an international dimension, it has been argued that countries such as China and Russia have used the pandemic to take advantage of the distraction it is causing to adversaries to expand and consolidate regional and global power (see, e.g., Roth, 2020 and Economist, 2020).

In both of these situations, many aspects of the "rules of the game" are viewed as changing (Duclos, 2020; EU Parliament, 2020) and, while much of our present conception of institutions is that they set the boundaries of risk and uncertainty, what we have seen through populism and the pandemic is that they are actually pushing these boundaries outwards. We assert here that the key driver of the institutional changes created by populism and the pandemic is not coming from within these institutions (at least not initially), but is an exogenous shock created by the emergence of specific political leaders at a propitious point in time. Populism may be a popular idea, but without a vehicle – such as a charismatic leader – to give it a vector to power (Devinney & Hartwell, 2020), populism cannot create substantive institutional change. Similarly, the use of existing political institutions in ways antithetical to their design has occurred nearly everywhere across the globe during the pandemic (Sharma, Leung, Kingshott, Davcik, & Cardinali, 2020). While some of the variation in the extent to which institutions have been re-oriented can be explained by social norms, existing checks and balance, or even the severity of incidence of the disease, most of the specific policies implemented cannot be explained without recourse to the specific leaders involved (Hartwell, 2020).

This reality has created the necessity for IB scholars to expand their vision, exploring the role of leaders and personalities as the drivers, facilitators, and utilizers of the political and social institutions which surround, animate, and constrain business. Although recent work on political risk has homed in on the issues of country context (Darendeli & Hill, 2016; Oh & Oetzel, 2017), IB has not expanded to a point where it can meaningfully and operationally encompass the importance of political leaders, relegating such insights to political science and viewing institutions as either black boxes or driverless vehicles. This state of play means that there is a vast opportunity for IB scholarship on understanding how populism (and in particular the populism of the post-global financial crisis world) or the specific breed of pandemic politics may influence and impact firm behavior in the future. In doing so, we may also understand how firms deal with the exigencies of their surroundings and, in turn, how firms can influence these surroundings.

The purpose of this perspective article is to survey the past (both distant and much more recent) in order to understand the new challenges facing international business in the near future. In particular, the early and seminal works on political risk (Dichter, 1962; Kobrin, 1979; Kolde & Hill, 1967; Usher, 1965) and uncertainty (Jauch & Kraft, 1986; Ricks & Czinkota, 1979; Shubik, 1986), coupled with the institutional literature of the 1990s and 2000s (Mudambi & Navarra, 2002; Peng, 2002), offer many insights for understanding firm behavior in both developed and emerging markets today. However, the current business climate has been shaped by a new type of risk, one driven by political leaders and the phenomenon of institutional volatility, creating uncertainties that go beyond the realm of quantifiable unknowns and which are more accurately characterized by the VUCA (volatility, uncertainty, complexity, and ambiguity) framework of Buckley (2020). Our contribution is to highlight these new challenges and their source, as political leaders push the boundaries of existing institutions, creating or exacerbating institutional weakness and shifting the rules of the

[1] Interesting, the black swan nature of the Covid pandemic is seen in Pekar et al.'s (Pekar, Worobey, Moshiri, Scheffler, & Wertheim, 2021) analysis that shows that the pandemic may not have occurred except for a small set of specific circumstances that stopped it from dying out quickly.

game. This form of institutional volatility has come about because of the ascendance of populism and the aggrandizement of power from the market to the state that has been seen during the COVID pandemic, creating a fundamental shift in business operating environments and threats of permanent changes to the business landscape.

As we will show in this paper, the overall business climate has moved from one dominated by stationary and quantifiable political risk and institutional structures to one affected more directly by the non-stationary political uncertainty generated by leaders and political parties. Our assertion is that the IB literature needs to be updated to give consideration to these new forms of political influence and uncertainty, focusing on "unknown unknowns" and their effect on firms. We believe that the new political environment globally will require additional theoretical and empirical work to understand how firms can survive and thrive, building on the insights of the past four decades, with particular emphasis on the role that actor-generated uncertainty plays in the geo-political landscape. This may not lead to the elusive all-encompassing view of the political-business nexus, but it will be iteratively more nuanced than prevailing frameworks and, importantly, be crucial for better explaining what firms face in the world of today.

2. From political risk to political institutions: a brief review

The international business literature is no stranger to examining the political-business nexus, as extant research over the past five decades has incorporated political factors as an influence on firm decision-making. As this Section will show, there have been three separate waves of research over this time (summarized and defined in Table 1), distinct but not mutually exclusive and often with substantial overlap. However, the animating force behind each of these phases have been the problems which MNEs faced at the time, with the literature coalescing around the dominant issues of the time and seeking to explain the drivers and solutions to the problems of the day.

2.1. Political risk and international business

Spurred on by de-colonization and the explosion of opportunities in international commerce in the 1960s, IB quite rationally emphasized the importance of understanding the operational and strategic challenges of sometimes-trying foreign environments (Mascarenhas, 1982). MNEs often found themselves operating outside of their comfort zones, entering countries characterized by weak legal systems and erratic policies. It was in this context that the "political risk" literature emerged (Usher, 1965) – an entire research stream on the various risks and opportunities which MNEs faced outside of their home country (Zenoff, 1967). Much of this work was primarily "inside-out," discussing how environmental (Kolde, 1966; Lilienthal, 1960) and cultural contingencies (Dichter, 1962) would impact models of multinational enterprise strategy, structure, investment and location choice and operational activities (Kolde & Hill, 1967).

While much of the literature viewed culture was effectively static with the timeframe of business decisions, there was a distinctly dynamic aspect to political risk, as reflected by Lloyd (1974:25): "the nature of political change itself is frequently difficult to anticipate. This is further complicated by the fact that what is a political risk for one firm is not necessarily of any relevance to another." The burgeoning political risk literature focused predominantly on the macro-political threats inherent in doing business in emerging markets, with the most important political risk faced by MNEs in the 1960s and 1970s as the risk of expropriation/nationalization. Indeed, "political risk" was seen as synonymous with expropriation in the IB literature: according to Fitzpatrick (1983:249, referring to International Bank for Reconstruction & Development & International Chamber of Commerce: Commission of Foreign Investments, 1962), political risk was "loss of control over ownership or loss of benefits of enterprise by government actions." High-profile nationalization and expropriation occurred throughout developing countries in the 1960s and 1970s (Burton & Inoue, 1984), chiefly connected with natural resource industries (see Fig. 1) – as in Iran and Egypt (Guriev, Kolotilin, & Sonin, 2011) – or industries perceived as "critical" (Kobrin, 1984), as governments tried to "localize" production and keep local subsidiaries supporting national policies (Kobrin, 1980).

This state of affairs subsequently became a fertile area of IB research

Table 1
The Evolution of Political Phenomena in the International Business Literature.

Type of Disturbance	Characteristics	Examples	Representative Papers
Political Risk	Quantifiable threats based on previous experience or public pronouncements;	Expropriation or nationalization	Aliber (1975); Brewer (1964); Cunningham (1966); Kapoor (1970); Kobrin (1980); Martyn (1965); Mascarenhas (1982); Mahdavi (2014); Root (1968); Usher (1965)
Political and/ or Policy Uncertainty	Lack of knowledge or communication about future policy changes; Unknown probability of a regime shift or unforeseen circumstances following a substantial regime shift (e.g., military coup)	Election of an unknown quantity or unexpected ascendance of a new leader; Radically different policies held in place over a long period of time (e.g., unconventional monetary policy)	Baker, Bloom, & Davis (2016); Bloom (2009); Desta (1985); Fitzpatrick (1983); O'Connell and Zimmerman (1979); Ricks and Czinkota (1979); Rice and Mahmoud (1986); Jauch and Kraft (1986); Shubik (1986); Taylor and Ferro (1983); Wack (1985)
Institutional Volatility	Rules of the game change repeatedly; Institutional functions are redefined as their opposite or rapidly expand into new areas; long-standing institutions are abolished, or their functions are taken on by new institutions	Repeated constitutional changes; Protection of property rights shifting from policy to policy; Overhauling long-standing voting or legislative rules, especially against resistance; Piecemeal changes in the relationship of the judiciary and the executive	*Institutional Distance*: Buckley et al. (2015); Chao and Kumar (2010); Gaur, Kumar, and Singh (2014); Gaur and Lu (2007); Hernández and Nieto (2015); Kostova (1999); Xu and Shenkar (2002) *Institutional Voids and Uncertainty*: Doh et al. (2017); Hilmersson et al. (2015); Khanna and Palepu (1997); Peng (2002); Roth and Kostova (2003); Slangen and Van Tulder (2009); Valentino et al., 2019 *Institutional Volatility*: Berggren, Bergh, and Bjørnskov (2012); Bolen and Williamson (2019); Chung and Beamish (2005); Flores and Höllerer (2019); Hartwell (2018)

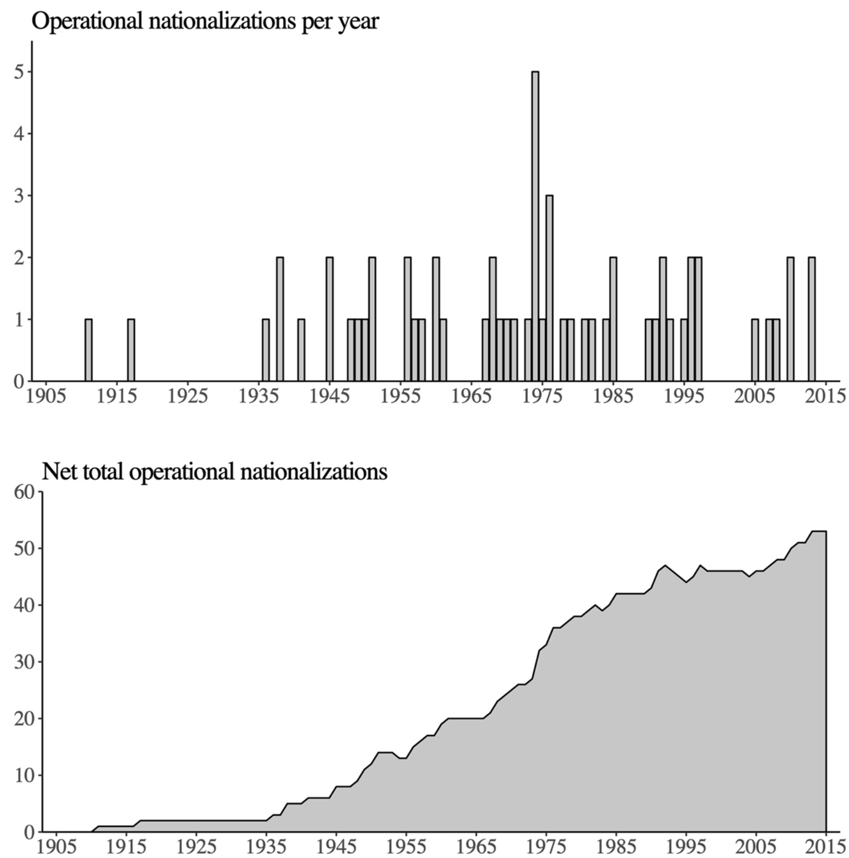

Fig. 1. Expropriations in the Oil Sector, 1905–2005.
Source: Mahdavi (2014). The figures use a sample of 61 countries to show the founding of a "state oil company" created via nationalization of existing private companies in that year. Used by permission.

(Hajzler, 2012), with papers focusing on mitigation strategies (especially Litvak & Maule, 1975, who posited a proto-corporate social responsibility could possibly deter expropriation), how MNEs were altered by risk (Bradley, 1977; Green & Smith, 1972), or even how managers ignored risk for expediency (Green & Korth, 1974). While sociology and political science focused on the strength and power of MNEs rather than their vulnerability (Aronson, 1974; Kimmel, 1975), papers such as Kapoor (1970), writing in the very first issue of the *Journal of International Business Studies* (and drawing on Bechtel's experience in India), also showed how MNEs were constrained in their negotiations with host-country governments.

While expropriation was the most prominent issue covered in the literature, additional threats to business were also examined as they became more salient, including the effects of political violence and terrorism on firm entry or operations (Bass, McGregor, & Walters, 1977; Robock, 1971), the challenges of de-colonialization (Kahler, 1981), and broad-based political change which could lead to discontinuities in business environment (Zink, 1973). These issues expanded in later waves of political risk research to encompass conflicts and instability (e.g., Czinkota, Knight, Liesch, Steen, 2010), perceptions (Giambona, Graham, & Harvey, 2017), political connections (Fernández-Méndez, García-Canal, & Guillén, 2018), and the location-specific risk mitigation strategies of MNEs (Darendeli & Hill, 2016; Oh & Oetzel, 2017). On a less sanguine note, Oetzel (2005) suggested that, even after decades of understanding political risk, management still refused to update their risk assumptions on an ongoing basis, despite the benefits of doing so.

2.2. From risk to uncertainty

Up to this point, the political risk literature lacked a unifying framework (Kobrin, 1979), relying on a mostly a collection of case studies (Fitzpatrick, 1983) and intuition (a point made by Gimabona et al. [2017] on risk perception) rather than a consistent analytic methodology. Although the methodological issues were addressed via a more quantitative approach in later waves of research (Boddewyn, 2016; Simon, 1984), there still remained the need for a new theoretical innovation to place these discrete risks into a broader framework usable for business. Making use of qualitative and quantitative measures to understand risk from the perspective of the firm and how it could be dealt with organizationally, the literature of the 1980s separated the dangers of the politics-business nexus into two ideas: political risk – an issue of direct relevance for the firm (Fitzpatrick, 1983) – and uncertainty – a broader environmental trait that could encompass regime shifts. As Root (1968:69) noted, "when the international manager makes a probability judgement of an uncertain political event in a host country, he thereby converts a political uncertainty into a political risk." Thus, while risk might imply a discrete issue that firms could overcome with savvy management or financing decisions, "uncertainty" placed the emphasis on ongoing and pervasive environmental factors which were crucial for managers to face daily (Ascher, 1982; Howell & Chaddick, 1994; Kobrin, Basek, Blank, & La Palombara, 1980; Mascarenhas, 1982; O'Connell & Zimmerman, 1979; Rayfield, 1986; Shubik, 1986).

Bayesian at heart (i.e., modeling parameters as exogenously random but with underlying risk probabilities that can be calculated and updated), the driver of this move towards quantifiable unknowns and away from specific categorical risks was the changing international business climate of the 1980s, as the established problems of the 1960s and 1970s mutated and became more numerous. Emerging market crises, driven by the debt crisis in Latin America in the middle of the decade, combined with increasing terrorism and conflict in Africa and Latin America and macroeconomic instability, meant that business faced a broader panoply of issues. At the same time, expropriation remained a threat, but decreased as a major concern for MNEs and was utilized less as a tool of policy (Minor, 1994), becoming just another in a series of risks which could be priced into managerial strategies (Mahajan, 1990). This proliferation of risks, including normal business risks unrelated to politics but to industry, market, or firm-specific variables, led directly to researchers pushing for a more holistic approach to risk in general, incorporating political uncertainty as one of many unknowns (Miller, 1992).[2] As with the political risk literature, there was also a push to recognize firms as actors in the political sphere as well (Hutt, Mokwa, & Shapiro, 1986), identifying ways in which businesses could be proactive against political uncertainty (Jacobson, Lenway, & Ring, 1993) and perhaps mitigate preemptively (Taylor & Ferro, 1983).[3] The specter of endogeneity also reared its head, as some scholarship posited that that firms could also create political uncertainty by their presence (Geller, 1982);, their operations (Howell, 1992), or even their contribution to economic development (as growth creates new actors on the political stage, threatening overall stability even if the overall effect is salutary, see Donaldson, 1989).

2.3. Politics as institutions

While political risk and uncertainty stemming from specific policies (i.e., expropriation) was still of key concern for managers (Busse & Hefeker, 2007), the fall of communism in Central and Eastern Europe and the (soon-to-be) former Soviet Union, coupled with the rise of China and its own rapid institutional changes, unleashed waves of globalization and liberalization in the 1990s and was directly responsible for the third phase of IB scholarship on the political-business nexus. The new business challenges accompanying globalization meant that the "new institutional economics" (NIE) revolution, predating the fall of the Berlin Wall and led by such authors as North (1986) and Williamson (2000), and its associated streams in sociology (Powell & DiMaggio, 1991; Streeck & Thelen, 2005) and organizational studies (Hirsch & Lounsbury, 1997; Selznick, 1996), was quick to filter through to IB. As Mudambi and Navarra (2002):636) noted, "institutions represent the major immobile factors in a globalized market," and the shift towards institutionalism meant grasping the different types of institutions (Peng, 2002), how they drove business environments (Murtha & Lenway, 1994), and what challenges and opportunities they offered for business (Peng & Khoury, 2009) and their operations (Boubakri, Mansi, & Saffar, 2013).

Explicit in this shift toward institutionalist thinking was attempts to get a deeper understanding of the role of political institutions in setting the rules of the game for businesses operating within their spheres of influence. A significant and logical start is seen Jensen (2008) and Li (2009), who focused on democratic regimes and their beneficial effects on the business environment, and Slangen and Van Tulder (2009), who asserted the overall quality of governance was a factor in reducing uncertainty for MNEs. Khanna and Palepu (1997) and Roth and Kostova (2003), brought together the worries of political uncertainty and political risk from earlier IB work to address the intriguing situation of the impact of the absence of the rules of the game – i.e., "institutional voids" – and how this evolved to effect economic institutional development (Mickiewicz, 2009). Prominent amongst this literature was the threat of corruption, a consequence of weak institutions (Doh & Guay, 2004; Li & Ferreira, 2011), and thus voids spawned business environments that were death by a thousand bribes rather than being expropriated wholesale (Dela Rama, 2012).

Work in institutional voids continues to result in a catalogue of specific political risks, as in Doh, Rodrigues, Saka-Helmhout, and Makhija, 2017:294), who noted that institutional voids could encourage "excessive rents to a few actors (reducing entrepreneurship) and market power (discouraging competition)." Empirical exercises by *inter alia* Demirbag, Glaister, and Tatoglu (2007)) and Li, Poppo, and Zhou (2008) confirmed these theories, showing how institutional voids and their consequences were a motivating factor in firm strategy. At the same time, institutional transition, creating a temporary void, could also generate political risk for firms associated with the "old guard" (Sun, Mellahi, & Liu, 2011), while deteriorating political conditions could force MNEs to uproot and move their headquarters (Valentino, Schmitt, Koch, & Nell, 2019). Institutional volatility, dancing around the void, need not even be the driver of deleterious consequences for business, as political stability in a void could have an impact on firm management if this stability occurred in a broader environment of change (Buck, Filatotchev, Nolan, & Wright, 2000).

Perhaps more problematic for business was not the often-obvious situation where institutions were absent but the much subtler situation where there was institutional distance (Kostova, 1999; Xu & Shenkar, 2002) between home and host country institutions. Several papers in this vein (see Table 1) explored the effects of differences in institutional make-up and/or culture on various firm strategies, entry modes, and decisions, highlighting in depth how the distance from one's own institutional milieu constituted a background political risk (others, such as López-Duarte & Vidal-Suárez, 2010 attempted to fuse institutional distance and political risk into separate-yet-related phenomena). Buckley, Clegg, and Cross (2015) noted that institutional differences could even affect where firms chose to invest outside of their own countries, especially if desire to please the political elite by conforming to their preferences for certain allies was a key motivating factor.

As in both the political risk and political uncertainty literature, there continues to be an emphasis on remedies for business in dealing with the exigencies of institutions. Research showed that firms which had international capabilities were more agile in general and could adapt to uncertainty at home (Beaulieu, Cosset, & Essaddam, 2006; Delios & Henisz, 2003), while emerging market MNEs, by dint of exposure to institutional risk on a regular basis, developed their own strategic agility (Cuervo-Cazurra, Ciravegna, Melgarejo, & Lopez, 2018; Grosse & Mesquita, 2007).[4] Mair and Marti (2009:420) also turned the institutional weakness of a host country into more than just an obstacle to be surmounted; using the case of Bangladesh and its weak formal institutional environment, they noted that "[institutional] voids [can be] opportunity spaces for institutional entrepreneurs." And Hilmersson, Sandberg, and Pourmand Hilmersson (2015) emphasized that knowledge was indeed power, and some aspects of institutional uncertainty at least could be mitigated through repeated interactions within a country (although Bhaumik, Owolabi, & Pal, 2018] show that too much information could make a firm difficult to absorb for an internationally oriented suitor).

[2] An astute reviewer noted that volatility is encapsulated in both political risk and political uncertainty, a point we certainly agree with. While we return to a specific form of volatility below, namely institutional volatility, it is important to also address political volatility within the risk/uncertainty formulation of IB literature. Political volatility is both a specific form of political risk (sudden collapse of a government leading to an abrupt change of policies) and political uncertainty (pendulum swings in a divided government or the threat of potential use of violence or unconstitutional means to change policy), but, importantly, it occurs within the existing political institutional structure. This is distinct from institutional volatility, as we will see, which is a shift in the rules of the game.

[3] Indeed, Coplin and O'Leary (1983) and Rice and Mahmoud (1990) detail ways in which policies can favorably impact the bottom line, and how businesses might be more engaged in potential risks and turning them into opportunities.

[4] This did not mean, however, that these EMEs were immune to institutional voids, as shown in Zhang, Zhou, and Ebbers, (2011).

3. Rethinking risk and uncertainty in a world of political institutional volatility

As this brief review has shown, our understanding of the politics-businesses nexus has been necessitated (and spurred on) by the current events of the day, from specific political risks such as nationalization to political uncertainty created by regime shifts and macroeconomic instability. The latest round of research, encompassing institutions as the mediator of risks and, to some extent, the boundaries of uncertainty, has come to dominate IB thinking much as political risk did in the 1960s and political uncertainty did in the 1980s. A search of back issues of the *Journal of International Business Studies* (JIBS) and the *Journal of World Business* (JWB) reveals 1145 papers in JIBS (including the 2015 JIBS "Decade Award" winner, Meyer and Peng (2005), which discussed institutions in transition), and 863 articles in JWB devoted, in some part, to institutions (with 57 in JWB devoted exclusively to or touching upon political institutions).

The ascendance of institutionalist thought has much to commend it in terms of expanding our horizons on how political institutions and businesses interact. In the first instance, institutionalists have forced IB scholars to focus on the incentives of political institutions in structuring business policy (as well as the interplay between business and political institutions and how they influence each other; see Cantwell, Dunning, & Lundan, 2010), while also bringing attention to the relative importance of the various rules of the game in structuring policies of direct relevance for business. At the same time, the expansion into institutions allowed international business to "draw upon key insights from political science, political economy and sociology, and examining how firm-level strategy or performance varies across different institutional constructs developed elsewhere" (Henisz & Swaminathan, 2008:538). Finally, and in line with the utility of IB as a distinct discipline, the expansion of IB into institutions also helped to explain changes in international business in the 1990s and 2000s, when institutional change itself was the key issue MNEs faced in emerging markets.

However, in the prescient words of Jakobsen (2010:481), "multinational companies today probably face a much broader array of risks than during the nationalization wave of the 1960s and 1970," and to this we may add that these risks have even transcended the political uncertainty of the 1980s or the institutional components comprising the operating environment, identified in the 1990s. Although the shift to institutionalism provided a new basis for understanding the role of political institutions, it also created a paradigm which somewhat subsumed risk and uncertainty as structural and exogenous (rather than situational and endogenous) challenges for businesses. This was a feasible approach when institutional distance and voids were omnipresent, but the paramount issue facing business as we enter the 2020s is distinctly different: institutional volatility (Hartwell, 2018), a mélange of specific political risks, political volatility, and political uncertainty driven from above by a shift in institutions themselves (as shown in Table 1). Whereas the rules of the game in most developed economies (and some developing economies) over the past thirty years have been clearly delineated, creating boundaries of the constraints and opportunities available to businesses, the volatility of the past decade – encapsulated by the rise of an anti-globalist populism and the reorienting of liberal democracies to fight an unseen virus – has drafted new rules.

Before focusing specifically on the current events which typify institutional volatility (see Section V), it is important to understand the channels via which *all* forms of political institutions exert an influence on business. A useful framework can be found in the underlying tenets of Knightian uncertainty (Knight, 1921), with risk and uncertainty characterized into four basic categories as given and described in Fig. 2: known/knowns, known/unknowns, unknown/knowns and unknown/unknowns (Makridakis & Bakas, 2020).

From our perspective, it is the bottom row of Fig. 2 that has the most relevance for IB, as political risk and political uncertainty as conceptualized by the extant literature fall in the known/unknowns quadrant (the lower left-hand box). Political risk is fundamentally a statistically stationary concept that posits unknowns which can be characterized (and hence managed or financially hedged). Similarly, environmental uncertainty, as explored in the 1980s IB literature, followed Bayesian tenets and was predicated on the ability of a business to quantify overall risks, revising prior distributions on the basis of new information. This approach also operated on an assumption of stationarity, in that modeling of the broader operating environment which a firm faced could encompass an underlying stochastic process which had probabilities of regime shifts, but these shifts were increasingly unlikely (and downgraded accordingly) unless there was an increase in variance (see Brock & Carpenter, 2006 for an analog from the natural world). In this manner, the institutional environment remained an upper and lower bound for risk quantification, with a slight probability that these bounds would change (and the likelihood of this change linked to escalating risks which could be patently seen). Firm strategy would then operate within these constraints, acknowledging the presence of known/unknowns but utilizing prediction and, hence, allowing pricing and management as a function of probability (Makridakis & Bakas, 2020; Marshall, Udechukwu, Wang, Lin, & Chipulu, 2019).

However, extreme uncertainty such as that generated by institutional volatility (distinct from institutional reform, which implies either a direction or, at best, an endpoint), exhibits fundamentally unpredictable or uncharacterizable (at least with current information and technologies and without some manipulation) paths which may exceed the boundaries of possible paths available under a stable regime. In Fig. 2, this would be the lower right-hand box, comprising unknown/unknowns, which are characterized by sudden unpredictable regime shifts, reversals, and events unmoored from the existing institutional boundaries. The challenge this presents for business is manifold, as institutional volatility creates an entirely new set of unknowns which themselves are uncertain; if institutions are conceived of as ways to decrease transaction costs (North, 1987) or increase the dissemination of information (Bergh, Ketchen, Orlandi, Heugens, & Boyd, 2019), volatility of these institutions may instead generate higher transaction costs, more difficulties in obtaining information, and, especially, greater uncertainty on which information is valued or which incentives should be prioritized. As noted above, institutional volatility rewrites the rules of the game, making previous assumptions about the boundaries of risk and uncertainty untenable. For businesses, thus, it is imperative to move towards a model which can help to operationalize understanding of unknown/unknowns.

4. Political leadership and institutional volatility: consequences for IB scholarship

A first step towards understanding the ramifications of changing the rules of the game can be seen if we further subdivide the unknown/unknowns of Fig. 2 into two parts: (1) those unknowns that may forever remain unknown as they have no parameterizable aspect at all, and (2) those unknowns that could exist in another category, but we simply have no conception that they are there at all. The second of these unknown/unknowns is the more important, as they have the possibility of being converted into another form either analytically or via discovery (Marshall et al., 2019); additionally, they provide the possibility of real advantage as they allow for better operationalization and forecasting of the political environment and hence a basis of better decision making.

With specific reference to institutions, the drivers of these unknowns can, in some sense, be discovered (in the conception of Packard & Clark, 2020, a portion of the aleatory uncertainty may become epistemic, that is, able to be mitigated or at least prepared for) if we focus on the inner workings of institutions and why they change, mutate, and shift. A large literature focuses on the gradual evolution of institutions (*inter alia* Blyth, Hodgson, Lewis, & Steinmo, 2011; Lewis & Steinmo, 2012) and understanding how an institution shifts its mission or expands/contracts it over time is a good starting point for understanding the longer-term

Fig. 2. Risk and Uncertainty States.
Source: Adapted from Makridakis and Bakas (2020:4).

waves of change that can generate or maintain uncertainty (Glismann, 1987; Grübler & Nakićenović, 1991; Kurki, 2019). Such an approach can capture longer-term political risks within a given institutional structure relevant for business; explaining, for example, why protests erupt in a system which has been closed for so long. However, examining the change of institutions solely as a long-term process (based on world historical periods, exogenous factors, and relative prices) will reveal little about sudden regime shifts and unknown/unknowns, especially if one treats institutional change as a "sandpile" event (Bak, Tang, & Wiesenfeld, 1987), which results in massive shifts of form but not of function. As Ribeiro, de Deus, Loureiro, and e Albuquerque, 2018:15) correctly note, "in a sandpile…perturbations do not change its organization – the organization of the system is very similar before and after an avalanche, but in a capitalist economy those perturbations trigger institutional answers that reorganize the system".

A better way to frame *current* drivers of unknown/unknowns in the institutional realm is to instead look to who specifically is leading the institution at any point in time. Such a focus on leaders embodies an analytical viewpoint which combines the longer-term focus of institutional mechanisms (as semi-permanent and slow to change) with the short-term (and human) modalities which can set in motion the same very changes necessary to move an institution. This area has been the domain of political science (and to a far lesser extent, psychology and sociology), which has attempted to understand the human drivers of institutional volatility that create the conditions for unknown/unknowns; this includes with distinct literatures on the role of leaders in either creating revolutionary change (Roland, 2004; Skocpol, 1979) or stifling it (De Mesquita & Smith, 2009) and leadership literature as it relates to crisis management (see, e.g., Allison, 1971 for one of the earlier works in this area).

The insights of political science have helped to create an expansive view of political uncertainty built upon economic foundations, namely in examining the incentives which politicians have to avoid or create institutional volatility. For example, if we were to consider only rational, calculating institutions in a country, focused on alleviating transaction costs and driven by internal logic rather than fallible humans, there would be no room for anything other than exogenously induced institutional volatility, as it would do little more than reflect a failure of the institution and a negative for society. Effectively, we have nothing more than a model of institutional determinism. However, the fact that institutional volatility does exist means that either there is no unanimity on what certain institutions should do (the very definition of politics) or, seen from a more economic perspective, that there are incentives, benefits, and costs to such volatility and that these benefits and costs are not distributed uniformly in the society. The entire "policy entrepreneurship" literature focuses on the use of crises or creation of volatility to advance particular agendas (Breunig & Koski, 2018; Bronk & Jacoby, 2020; Keeler, 1993), and political science recognizes that self-interested, optimizing politicians may benefit from changes of the rules of the game. Like financial markets, the political marketplace is full of winners who profited off of volatility rather than seeking safety in relatively low-risk strategies, meaning that in certain situations, creating unknown/unknowns is actually a deliberate strategy of politicians and leaders rather than seeking stability.

Unfortunately, and perhaps unwittingly, the current IB research focusing on institutions has pushed aside the role that politicians, ministers, and bureaucrats play in determining policy and ensuring its implementation or hinderance (Devinney & Hartwell, 2020), seeing institutions as driver-less vehicles influencing incentives from outside the business ecosystem. In current IB theory, including in the literature discussed above, political actors are literally given a set stage with lines to perform, and much IB scholarship abstracts completely away from the political actor and towards the faceless institution arguing that it is the institutional structure that determines outcomes. If management matters for IB – and an entire sub-discipline argues that it does – why would it not for political institutions? Or to use an oft used phrase initially coined by Ronald Reagan's personnel director, Scott Faulkner, "personnel is policy" – and if that is not the case, why waste time with people when all that matters are the institutional rules and routines?[5] Clearly, the public, media, and policy makers all believe the driver of the institutional vehicle is extremely influential in directing policy outcomes (Hauser & Siegel, 2020).

The exclusion of political actors has been problematic for the reason noted earlier, mainly the reality that volatility might be something that political actors actually create for their own ends. Theoretically and conceptually, IB theory has (mostly) operated under the notion that both risk and uncertainty are bad, both for firms operating in an environment and for the governments involved, a desire at odds with the insight from political science that suppressed volatility may make events even *less* predictable (Taleb & Blyth, 2011). More critically, there is evidence on the lack of congruence between firms and political actors on the (lack of) desirability of risk or prolonged uncertainty (Julio & Yook, 2012). Indeed, the reality of a world where claims of "fake news" and "alternative facts" or tweetstorms of conspiracy theories and the creation of continuous political distractions is one where there is a clear strategy of leaders forcing the political and social environment into one where known/knowns are questioned, and unknown/knowns and unknown/unknowns start to dominate. This is precisely the thesis laid out by Bronk and Jacoby (2020:25) when they discuss the use of "narrative

[5] An example of this is the fact that the Harvard Kennedy School has a course (DPI-326M) entitled "Personnel Is Policy: Building Teams in American Government".

coups" by populist leaders as a process for "capturing, reorienting, and subverting the sub-conscious conceptual grids and normative frames with which voters interpret events and construct the evidence needed to make decisions … crowding out competing discourses."

An additional challenge of political opportunism is not only that institutional volatility may be welcomed, but that long-established institutions could themselves become transmission mechanisms for this risk and uncertainty once captured by specific political leaders. A venerable institution, such as the legislative body, could be used to undermine other institutions such as the judiciary (as seen in Poland and Hungary), or the media could be utilized to push conspiracy theories and undermine legitimacy to an institution seen as wholly legitimate just three years prior (as seen in the United States). At the same time, existing institutions could be used to implement brand-new, contrary-to-purpose policies that might have massive negative ramifications for business. Again, a focus on institutions (and especially only on formal institutions, typified in a country's body of laws) would miss this reality while traditional mitigation and arbitrage strategies for managing political risk – forecasting, forestalling, absorption – would become increasingly weakened in this environment (as the whole point of shifting the focus away from more "knowns" is to make it harder for those firms interacting with political actors to come up with countering strategies). The attempts to generate volatility for political gain will also shorten the timeframe of firm decision making (as forecasting loses value), making planning and long-term investment riskier (as absorption puts assets at risk).

From a dynamic capabilities perspective (Wilden, Devinney, & Lin, 2018), there is real value in short term sensing and potential seizing of opportunities only when there are unknown/unknowns and only so long as the environment is not heavily dominated by uncertainty relative to risk and certainty. In a world with proportionately less uncertainty relative to risk and certainty, dynamic capabilities decline in value as risk and certainty can more readily be accommodated and priced into longer term strategic decision making. As uncertainty comes to dominate, no amount of sensing has value as the environment is virtually unpredictable from time period to time period: Green and Korth's (1974) previously mentioned view that the pervasiveness of risk led to managers ignoring it for expediency reasons relates to exactly this, as, in a world of high institutional volatility, pervasive unknown/unknowns (as opposed to high risk) may make it easier for firms to simply ignore the uncertainty totally. Sudden policy changes, linked to charismatic leaders or the dramatic realignment of political in-groups and out-group, can make Kingsley, Vanden Bergh, and Bonardi (2012:63) injunction – namely that "properly assessing a firm's exposure to regulatory uncertainty helps managers craft an appropriate integrated strategy" – difficult, as both firm exposure and regulatory uncertainty can be in a state of flux. This also implies that real options thinking becomes more valuable as the higher the implied volatility, the greater the value of an option. Yet, while Chi, Li, Trigeorgis, and Tsekrekos (2019) in their review of real options in IB discuss uncertainty and political institutions, they do not take into account the importance of political actor induced uncertainty, which may be more pervasive than exogenous shocks.

In sum, institutional volatility is driven not by longer-term historical processes, but by the short-term incentives of politicians working within (and looking to change) a given political institutional matrix. The next section provides two concrete and current examples of these types of institutional volatility, the rise of populism and the response to the COVID-19 pandemic, and how a view towards understanding political leadership is necessary for firms to respond rather than throwing in the towel completely.

5. Illustrating the changing rules of the game: business under populism and pandemics

Since its heyday in the 1970s and 1980s, a more prescriptive "insider" MNE focus in the IB literature has come to be dominated by a more "outsider" institutionalist perspective, a concept which nests specific political risks and broader uncertainty therein to derive recommendations. As noted, the IB literature reflected the worries of its day *vis-a-vis* political institutions, the issues of political risk, uncertainty, and institutional differences, which makes it understandable why understanding non-stationarity and the possibility of institutional volatility was simply not as pressing as understanding the quantifiable risks which were visible.

However, over the past decade, the broader economics profession has extended the focus on political institutions to embrace the idea of policy uncertainty (Baker, Bloom, & Davis, 2016; Bloom, 2009), a particular manifestation of institutional volatility, and examined its effects on the macroeconomy, finance (Kelly, Pástor, & Veronesi, 2016), household consumption (Leduc & Liu, 2016), and investment (Bloom, Floetotto, Jaimovich, Saporta-Eksten, & Terry, 2018). Indeed, political risk and institutional volatility has become more relevant since the global financial crisis of 2007–2009, with a rise in political turbulence, accompanied at the same time by an increase in political uncertainty moored to existing and incredibly durable institutions. Given this reality, it is time for the IB literature to reflect these new innovations, especially in light of the two most pressing political issues facing the world today, in order to help business better understand this phenomenon – and be prepared to counteract it.

The Scylla and Charybdis of populism and pandemic are the key examples of institutional volatility and institutional non-stationarity, requiring a re-examination of the overwhelming reliance on semi-permanent (and actor-less) institutions in the IB literature. In line with the theoretical framework sketched in Section III, long-established institutions in developed economies have actually become transmission mechanisms for this risk and uncertainty, as they are either being used to generate uncertainty by political actors on purpose (in the case of populism) or to implement brand-new policies which are known to have massive negative ramifications for business (in the case of the COVID-19 pandemic and subsequent lockdown). This section sketches just how populism and the COVID pandemic have the possibility to affect business, and in particular, how the IB literature should respond in order to generate practical and forward-looking insights.

5.1. Our populist times

The rise of populism since the mid-2000s, accelerating during and after the global financial crisis, has once again brought political uncertainty front and center and moved it from the emerging market niche to more developed democratic economies as well as those with historic authoritarian tendencies. While the exigencies of populism have been well-explored in the political science literature (see Rode & Revuelta, 2015; Pappas, 2016, or Mudde & Rovira Kaltwasser, 2018) for excellent summaries of the state of the art) and thus will not be rehashed here,[6] a brief overview of the possible channels via which populism may act on business is necessary. The economics and business literature has provided ample evidence on the effects of political and economic policy risk and uncertainty on the firm at all stages of development even in "normal times"; elections provoke unease in firms and lead to a rollback in investment (Jens, 2017; Julio & Yook, 2012), while weak economic conditions can lead political uncertainty to increasing the risk premia that firms face (Pástor & Veronesi, 2013). In countries where government connections are more important (due to the pervasive nature of the state and rampant intervention), political uncertainty causes even more difficulties for firms, as shown in Xu, Chen, Xu, and Chan (2016). This is especially true if uncertainty is unforeseen (unknown/unknown), as, in environments used to stable politics. Political uncertainty can vitiate the

[6] The fact that political science has been debating this issue constantly for a decade or more proves our point on the insights to be learned from the discipline, especially if the reader is unacquainted with the basics of populism.

amount of information available in the marketplace, making firm assessments, investments, and valuation more difficult (Chen, Chen, Wang, & Zheng, 2018). Oetzel, Bettis, and Zenner (2001) also make the point that we can even be uncertain about uncertainty, as commonly used country risk guides are poor predictors of actual instability and conflate risk with uncertainty.

In the context of populism, however, these bouts of uncertainty are magnified and enlarged as they reflect part of the purposeful strategy of the populist parties and politicians. Indeed, the ideas underlying and animating populism are predicated on a change of what existed before at the policy, administrative, and institutional level (Barr, 2009), meaning that the longer-term worries of populism are not only worries about policies but about the rules of the game themselves. In this sense, populist electoral successes act as a negative uncertainty shock for many businesses. First, and foremost, they seek to reverse (sometimes abruptly) policies of previous leadership, promising "improvements" (Havlík, 2019) or herald a return to a prior golden era, as seen in the case of the Trump's MAGA movement and Xi's heralding of a new Confucian age. Secondly, they deliberately create turnover in administration so that favored people replace those of the "old regime" (Peters & Pierre, 2019). Finally, they see their own reversals and advances based on its (mis)reading of the popular will (Eichengreen, 2018), meaning that even the projected march towards populism has had its share of setbacks (generating even more uncertainty). The current wave of populism, typified by the successes of Brexit, the election of Donald Trump in the United States, the continuing popularity of Narendra Modi in India, and the spread of democratic illiberalism in the new EU states of Central Europe, has been characterized expressly by such institutional volatility.

While following some of the classical definitions of populism as noted above (e.g., Mudde, 2004), the post-global financial crisis surge of populism has been characterized by additional novelties, each with its own possibility to create specific challenges for business. We note some of the more important below.

(1) *It's not just in developing markets anymore:* A key characteristic of the current populist wave is the fact that is has captured developed as well as developing economies and, indeed, appears to have been generated from within more advanced economies and then spread back to emerging markets. While some populist successes predate the global financial crisis (Erdogan in Turkey or Cristina Fernandez de Kirchner in the populist haven of Argentina), it is only since the near collapse of the global financial system from 2007 to 2009 that we have seen populism make strong inroads in most major economies (Kyle & Meyer, 2020). This reality means that developed country MNEs are now not only threatened by institutional voids and distance abroad but must also worry about home-country volatility possibly closing off markets or threatening supply chains. As populism is also often associated with economic stagnation (Funke et al., 2020), weakening economic conditions or a rebalancing of economic power due to populism at home can strike directly at firms' decisions to internationalize or their capabilities to do so.

(2) *"Fake news!" and manipulating the narrative:* More so than earlier waves of populism in regions such as Latin America, the developed country version of populism has had an emphasis on creating variance in the belief system of the population via reducing the perceived validity of information sources; in this manner, existing, entrenched institutions can be subverted or dismissed altogether. This role of uncertainty and nonstationarity as a political strategy is noted by Bronk and Jacoby (2020:2), who argue that the "indeterminacy of the future ensures that expectations cannot be firmly anchored in objective probability functions, while making it impossible to know whether current models of best practice will remain pertinent in future." Put in a more direct way, "the proliferation of dis- and misinformation churned out for profit or propaganda… [has] weakened the authority of the mediating institutions that produce and disseminate knowledge: universities, science, and the press. As a result, a cloud of suspicion shadows all claims to knowledge" (Brubaker, 2017:378), enhancing the ability of populist leaders to claim specific (or sole) knowledge of what objectively is the truth. If "truth" is embodied only in a particular leader – and not the marketplace – political masters must also be pleased lest their wrath be incurred, pushing out merit-based incentives in favor of patronage Kenny, 2017; (Morelli & Sasso, 2020).

This reality also means the need for firms to cultivate new political connections and invest resources into the political marketplace in order to avoid the deleterious effects that come with being on the outside (or worse, being associated with the old elites). While there is an interesting and rich literature on the effects of cultivating political connections and how they may help with firm performance (Ferguson & Voth, 2008; Wu, Wu, & Rui, 2021; Amore & Bennedsen 2013, Fernández-Méndez et al., 2018), the application of the "political connections" literature to our new reality is also lacking. Unfortunately, we have little sense on how firms divert resources that could be spent competing in the actual marketplace in order to curry political favor or, more realistically, to deflect political attention in a populist regime (Müllner & Puck, 2018 is a notable, but limited, example).

(3) *An anti-global global phenomenon:* Perhaps more importantly is the reality that, although this new wave of populism eschews globalization, the wave itself has fed on international cross-pollination, as global populist coalitions have begun to form to support one another via related policies and strategies, coordinating existing institutions and co-opting them for their own use (Meijers, 2011). Despite the diversity of populist strategies, their home country conditions, and the different personalities involved, the congruence of national objectives has led to institutional volatility being transmitted and reinforced by external actors. An excellent example of this seen with Poland, where power-behind-the-throne, Jarosław Kaczynski (the leader of the Law and Justice Party, Poland's ruling populists), has attempted to emulate Hungarian's populist leader, Viktor Orban, and has made common cause with him politically via anti-EU initiatives (Csehi & Zgut, 2020) while also forging closer links with him personally (Zwolski, 2017). The expansion and coordination of populism means additional amplification of uncertainty, as new institutional mechanisms come into being, economic policies focused on political imperatives (e.g., improving trade between like-minded countries) rule the day, and "official lines" become crucial for businesses to follow.

Understanding "populism's moment" (Devinney & Hartwell, 2020) is a new challenge for international business researchers and firms; at one-and-the-same time similar to, but unlike, any other political force faced in the past (hence, the early tendency to look for similarities between populism and prior political upheavals and changes). Current conceptions of emerging market firms may have evolved to address this issue, but a framework is lacking for considering the full range of coping strategies in a developed country context (Müllner, 2016), one which takes into account the political actors involved. As an example of this inadequacy, a narrowly interpreted institutionalist view may, by focusing on institutional distance, give distorted predictions about the effects of populism. While utilizing institutional tenets are necessary for understanding the longer-term shifts that populism creates, when applied to business, the notion of institutional distance may actually show a narrowing of distance but without any benefits for firms; put another way, populism may make developed countries more like emerging markets, but narrowing this distance does not imply that business will be any easier or that firms will reap any rewards.

As a final point, an optimist might dismiss away these issues as just another manifestation of political risk, one which will eventually fade into the background due to the inability of populism to persist as a political force. However, reality tells another story: Hicks (1931:3), writing forty years after a wave of populism in the United States, noted that "a backward glance at the history of populism shows that many of the reforms that the populists demanded, while despised and rejected for a season, won out triumphantly in the end." More recent examinations of the issue come from Funke et al. (2020:3), who note that "populism is of a serial nature. Countries that had a populist leader in history have a significantly higher likelihood of seeing another populist coming to power… [and m]any populists are successful at surviving in office and shape their country's political fate for a decade or more." The depth of the current wave of populism is reflected in the staying power of populist parties and leaders once in power, with leaders such as Viktor Orban ruling since 2010 and Cristina Fernandez de Kirchner of Argentina in power from 2007 to 2015 and back in power as Vice-President since 2019. Its breadth is seen in the geographic and variety of populist influence, along with the likelihood that many populist ideas will continue to persist beyond the current political phase. As both Hicks (1931) and Funke et al. (2020) note, nearly nine decades apart, populism's influence goes far beyond the initial charismatic leader who set it in motion, so that even after the initial bout of revolutionary fervor, the mark made on institutions persists for years, if not decades.[7] In a political strategy which seeks to change the rules of the game, institutions no longer become the guard rails that they might have been against other extremist policies.

5.2. Our locked-down times

In 2020, the political phenomenon of populism was joined by (and in many ways was fed by) the COVID-19 pandemic, an issue unlike any living politician had faced before. Although the SARS and H1N1 pandemics had occurred within the previous two decades, the scale of COVID-19 meant that there was little experience of such an event to rely upon. At the same time, the spread of the pandemic was so quick and surprising (the very definition of a crisis, see Hermann (1972)) – and the sense of urgency so unique – that even established institutional mechanisms had little experience on how to deal with it in a policy sense (in the nomenclature of Fig. 2, precisely an "unknown/unknown"). This unprecedented scenario led to wildly divergent policy responses, culminating in prohibitions on economic activity and movement ("lockdowns") being imposed, lifted, and re-imposed alongside the waves of the virus globally.

Despite the evolution of organizations and institutions to work with complex technologies and attempt to minimize risks and the occurrence of "accidents" (Roe & Schulman, 2016), "black swan" events such as COVID-19 can also serve to threaten the existing institutional order (Cortell & Peterson, 1999), especially if these institutions have already been weakened by waves of populism. While COVID-19 represents an extreme event unlikely (hopefully) to be repeated in the near future, it has elevated the ability of political figures to push the boundaries of existing institutions and reshape them for particular ends.[8] In fact, one of the keys lessons of COVID-19 is that institutions actually have limits in times of stress: bereft of memory or guidance in an unprecedented situation, and with any institutional capabilities highly dispersed across decision units, institutions themselves must rely on their leaders for guidance. However, unlike in populism, where there are specific blueprints for changing society and its institutional matrix, during the pandemic we have seen political actors without any guidance from personal experience who are falling back on their heuristics, ideologies, and pre-conceived worldviews to make decisions under stress (Gigerenzer, 2015 details the overall process of heuristic-based decision making). One bizarre example of this is how the UK Health Minister, Matt Hancock, pointed out that much of his surprising successful vaccine strategy was based on the movie Contagion (Zeffman, 2021). This reality means that the inherent personality traits of each leader and their existing heuristics had important ramifications for policy during the lockdown, moving beyond the institutional mechanisms which were designed for "normal" times and implementing extraordinary policies which would have been unthinkable just one year earlier.[9]

This does not mean that institutions have necessarily been wholly discarded or fundamentally changed during the pandemic. Indeed, in advanced democracies, institutional structures continue to set the boundaries for permissible policies, informed by culture and social relationships, and there have been no overt coups or overthrows of democratic processes (despite hyperbole from all manner of political operatives). What the pandemic has done is instead expand the boundaries of the set of permissible policies, moving the guard rails further back, as formal institutions, where unable to contribute, have been bypassed (Forsberg & Pursiainen, 2006 discuss this phenomenon). And, as with populism, the pandemic has allowed for specific leaders to utilize institutions to implement policies which are either outside of their original remit or are actually contrary to the usual functioning of the institutions, generating high levels of institutional volatility and uncertainty.

A key example of this – but by no means the only one – can be found in the United States. While the global response to COVID-19 has been a patchwork of responses and approaches, and even meta-organizations such as the European Union have had a hard time in coordinating a response (which, by most accounts, should be within its domain, see Ahrne, Brunsson, & Kerwer, [2016]), the United States has been a special case of similar institutional frameworks with diverging policy responses. The unique federalist nature of the American political system, with 50 separate states and additional administrative subregions with substantial autonomy, has been a driver of the institutional responses to the pandemic, but the US also showed that leadership (or lack thereof) at the sub-national level could override institutions at key junctures. While the economic shock of the virus was exogenous, creating its own form of uncertainty, the lockdown responses were endogenously generated and were much more broad reaching; depending upon the jurisdiction, these activities included blanket prohibitions on economic activity, travel restrictions, and differential responses by law enforcement to violations of the lockdown. And despite being a country underpinned by very similar political institutions across state lines, a common language, and a common historical experience, within a few weeks of the start of the pandemic, it became apparent that the jurisdiction in which a business was located in the United States was the key to understanding just what the lockdown response was going to be (a reality which grew with the second wave of the pandemic in autumn and winter 2020).

The variegated responses to the coronavirus from the different states in the US, ranging from very *laissez-faire* to strict lockdowns can be traced in some sense to ideology: as Fig. 3 shows, on average (and not controlling for severity of outbreak), states led by Republican governors had a much less stringent response in terms of lockdown than Democratic ones. Scratching the surface beneath this data, however, shows the influence of leaders in addition to pre-existing cultural traits and

[7] This is not to say that the revolutionary ardor necessarily cools, as some leaders (Mao in China, for example), periodically stoked the fires of populism in order to renew the populist zeal (Perry, 2002). Such a persistent and intense populism is bound to have even greater effects on uncertainty and thus be even more dangerous for firms.

[8] Thanks to the editor for suggesting this framing.

[9] A good example of this is the fact that in the US President Trump disbanded the NSC Global Health Security and Biodefense team that was initially set up by President Obama. He also chose to remove CDC personnel from its Beijing office, which dramatically reduced communication during the initial stages of the pandemic in China.

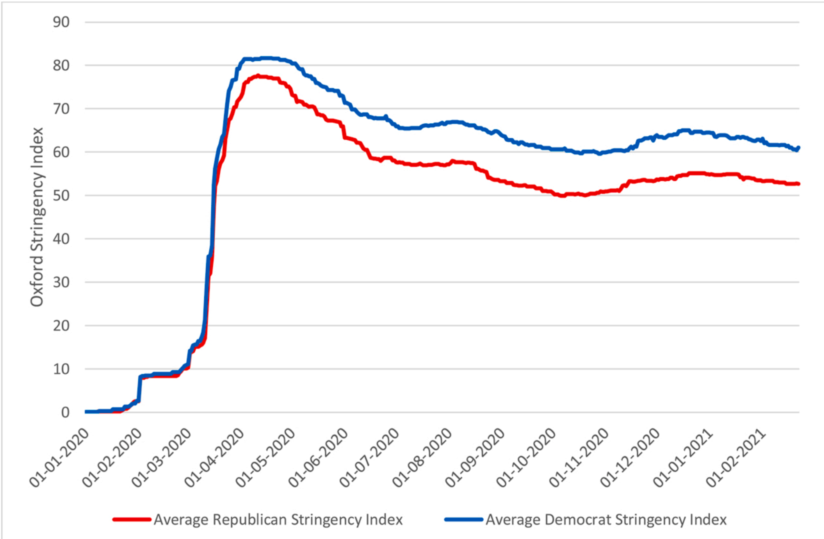

Fig. 3. Average Stringency Index for Republican and Democrat-led States, 2020-21.
Source: Based on data from the Oxford Covid-19 Government Response Tracker (OxCGRT), available at https://github.com/OxCGRT/covid-policy-tracker. The Stringency Index is a composite of several nonpharmaceutical policies including stay at home restrictions, restrictions on movement, and restrictions on public gatherings, with higher numbers indicating higher restrictions (scale of 0–100). Arithmetic average taken of all Republican/Democrat-led states' Index on a particular day.

institutional capacity. In particular, states facing similar challenges with regard to the severity of the pandemic enacted such different policies, meaning that public health policies and guidance from the scientific community could not have been the main drivers of the response (see Hartwell, 2020 for a systematic cross-national analysis relating leadership to COVID response).

A (much more simplified) example of this can be seen in the contrast between Maine and Idaho, two states in the US with a similar population size and similar effects of COVID-19 through the first wave of COVID to July 2020 (Fig. 4). While Idaho has a higher absolute number of deaths attributable to COVID, this may be due to the surprising spatial distribution of the population, as Maine has 62 % of its population living in "rural" areas while Idaho has 32 %, or it may be attributed to the slight difference in perceived healthcare quality in the two states (according to US News & World Report, Maine is ranked 19th out of 50 states in overall healthcare quality versus 26th for Idaho, although Idaho scores much higher than Maine on "public health"). However, as Fig. 4 shows, the *response* to pandemic was widely divergent across the two, and, in fact, goes against a simple explanation that the response was driven by public health differences or social norms. In Idaho, a Republican governor (Brad Little) ensured that Idaho's lockdown was far less stringent, even as deaths rose, while Janet Mills, a Democrat, kept Maine's stringency index elevated even long after the deaths had plateaued over the summer of 2020. While one could argue that any Republican or Democrat would have pursued the same policies, it is instructive to note that Governor Janet Mills campaigned and won in 2018 explicitly on a health policy platform (Goldman & Sommers, 2019), and thus her own policy passions translated into action during the pandemic – and this is even more prominent when one considers that, in the first month of the pandemic, Maine lost almost the precise amount of jobs per COVID death as Idaho (2324 jobs lost per death in Maine versus 2315 in Idaho, see McGowan, 2020).

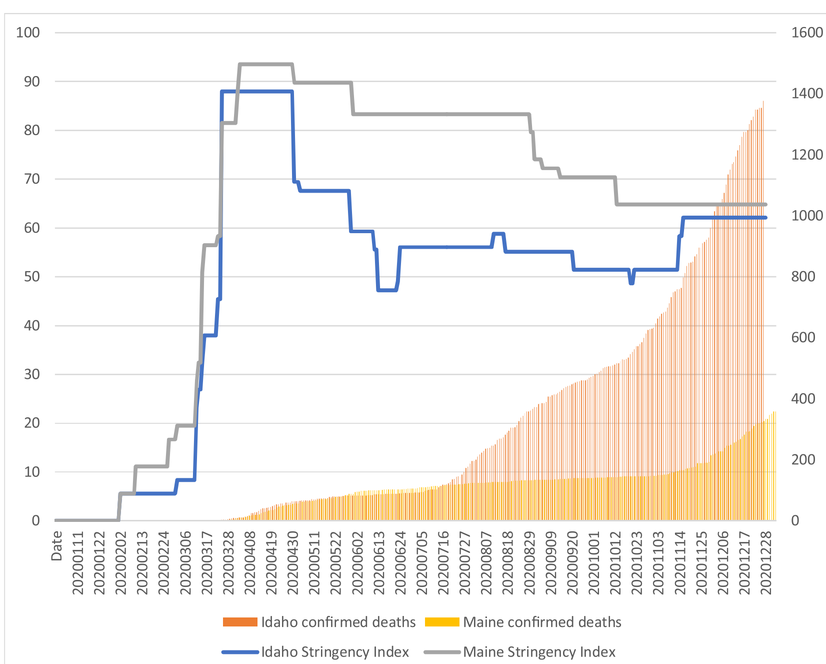

Fig. 4. Government Response and COVID-19 Deaths in Maine and Idaho, 2020.
Source: Oxford Stringency Index. The number of deaths is those as reported by the state.

Other anecdotal examples of the importance of leaders, rather than institutions, abound across the responses to the pandemic in the United States. For example, with a population density of 10.7 people per square mile, South Dakota appeared to be under much less threat of rapid spread of the virus, and Governor Kristi Noem avoided a blanket lockdown and instead issued a "stay at home" order only for vulnerable citizens over the age of 65 in March 2020. Throughout the first wave of the crisis, South Dakota consistently saw an R0 of less than 1, with a large spike in cases (over 134 %) in the beginning of May attributed to an upswing in testing rather than an actual additional wave of infections. In fact, the hotspot for coronavirus in South Dakota was not its sparsely populated land but its meat processing plants, as the Smithfield pork factory in Sioux Falls was (as of May 4, 2020) responsible for 44 % of the infections in the state (Dickerson & Jordan, 2020).

Coupled with this reality on the ground, however, was Governor Noem's fiery rhetoric, noting in an interview on Fox News that "'What I've seen across the country is so many people give up their liberties for just a little bit of security. And I don't have to do that." Such an approach made her a "a darling of right-wing media icons" while at the same time accused of "pushing politics during a pandemic" (Whitney, 2020). And despite having only 74 deaths out of a population of approximately 885, 000 at the end of the first wave, Governor Noem was nonetheless pilloried as "an ideologue sacrificing lives on the anvil of Trumpology" (McGreal, 2020). Again, while any Republican from the Midwest might have been expected to play this role, other similarly situated governors (e.g., Eric Holcomb of Indiana or Doug Burgum of North Dakota) did not actually do so, and South Dakota's approach to the pandemic (especially during the second wave) was far less stringent than these other states. Moreover, Noem's decisions, based on her politics as well as a read on the situation on the ground, led to conflicts which were specific to South Dakota: while the approval rate of the Governor's handling of the virus was 49 % in April 2020, second to last among all Governors (rising to 58 % by the end of May),[10] more problematic was the Governor's instrumental role in encouraging a massive motorcycle rally (the Sturgis Rally) to go on as planned in South Dakota between August 7 and 16, 2020, bringing more than 500,000 participants in close proximity. Recent research (Dave, McNichols, & Sabia, 2020:1) has estimated that the rally may have acted as super-spreader event, as "counties that contributed the highest inflows of rally attendees experienced a 6.4–12.5 percent increase in COVID-19 cases relative to counties that did not contribute inflows."

These examples, derived solely from the United States, have analogues globally, as policies dependent upon the pre-existing biases and heuristics of leaders, coupled with the resurgence of the virus in late 2020, have kept businesses in the dark globally about what is/is not permitted, what might come next, and how important jurisdictional boundaries are. Similar volatile pandemic responses have occurred in different countries around the world: for example, in the United Kingdom, where massive and continued state intervention against businesses have occurred, been repealed, and then surprisingly reimposed (seemingly dependent upon the amount of pressure levied on Prime Minister Boris Johnson, see Moss & Harris, 2020), or in Zimbabwe, where lockdowns were introduced with a 48 -h warning (Mackworth-Young et al., 2021) and where over 100,000 people were arrested for COVID "breaches" (including not wearing facemasks, see British Broadcasting Corporation, 2020, July 19]) but where prosecution suspiciously appeared to be targeted at activists and members of the opposition. But these policies imposed in the heat of a crisis do not tell the whole story of what the uncertainty of such an emergency response means for firms at time t, $t + 1$, or $t + 10$, it does not tell when such a policy might be enacted again, nor does it say what are the boundaries of these particular emergency powers.

The biggest challenges for business is the reality that, throughout the world, institutional guardrails were quickly removed under the guise of fighting the virus, with new powers not normally present in a liberal democracy aggrandized to executives; to take another example from the United States of the arbitrary use of emergency powers, New York City set a number of lockdown prohibitions, including one against "bars" but not against "restaurants" being open, arguing that there was a need for "substantial food" to be served to be compliant. And although the rollout of vaccines at the end of 2020 and through the beginning of 2021 has promised an eventual return to "normal" in the (uncertain) future, the business world has been dramatically altered specifically by the institutional volatility accompanying the pandemic. Firms that once were thriving have gone out of business and it is very difficult to "un-bankrupt" a specific firm (data at this stage is somewhat inconclusive, but early evidence by Holtemöller & Muradoglu, 2020 shows that the likelihood of bankruptcies for debt-laden firms during the pandemic to be well over two-thirds). Even firms that were rescued by massive government fiscal packages may find that they face a new competitive landscape, one that is much more sensitive to political risk and beholden to government largess, as they are forced to compete in a political marketplace rather than the actual marketplace.

At the same time, the unwinding of globalization – and the ease with which it was done – may become a permanent feature of a post-COVID world, as localization and diversified supply chains become more important than reliance on far-flung locales, a point brought to the fore with the closure of the Suez Canal due to a shipping mishap in March 2021. The most far flung of these locales could be China, which may find itself less central in global supply chains as the post-COVID world unwinds itself (at the same time, however, China's rebound from the virus has showcased internal firm capabilities, meaning that firms elsewhere may soon find themselves competing with Chinese firms, a dramatic shift in the competitive landscape). Finally, the ability of governments to bring complex market economies to a halt is a Pandora's box which cannot be closed, and firms may find that a riskier world may result in this lever being utilized more frequently for any manner of crises (real or perceived). In this sense, the post-COVID world may increase the number of unknown/unknowns, as governments are more likely to utilize the tools acquired during the pandemic in more (relatively) tranquil situations.

6. Conclusions (and Beginnings)

This perspective has examined the history of political risk and political uncertainty in international business, tracing out the evolution of these concepts over time and showing how the IB literature has been motivated by the issues of relevance at the time of their development. Whether considering expropriation, day-to-day risks in emerging markets, or deeper institutional change, the IB literature rightly brought its intellectual firepower to bear on the current issues that firms faced. In doing so, it not only revealed its relevance and ability to incorporate novelty but also how theoretical development can be motivated by new – and especially surprising - events. However, while this has resulted in a deep and rich literature on specific facets of the nexus between politics and business, it has left the discipline with conceptual blind spots regarding the role of political personalities in shaping the environment for firms, a reality which has been exposed with the rise of populism and the responses to the global coronavirus pandemic.

Indeed, there is a fundament endogeniety between events, institutions, and political agents and policy makers that we have, up to this point, downplayed in both our theoretical development and empirical modeling (Moe, 2006). The COVID pandemic illustrates this, as it will forever be linked to the *people* involved in the response – Trump/Biden, Fauci, Merkel, Putin, Bolsonaro, etc. – far in excess of the *institutions* involved in the response; in reality, it was the leadership of the institutional structures that mattered far more than those structures when the event and its potential implications were basically unknown and

[10] The Governor below Noem in the poll was David Ige, a Democrat from Hawaii, which had the most restrictive lockdown in the United States.

clear roadmaps out of the predicament were simply not available.

Whereas existing IB work has focused on the undesirability of either quantifiable risk or institutional uncertainty for business – and thus how firms should respond – it has also tended to align political environments and ultimate objectives with business ones (see, for example, Ekici & Onsel, 2013). But once one incorporates the incentives of political leaders and some accounting for their personalities and own operating environments (Alesina & Tabellini, 2007), this assumption need not be true. In fact, as we noted above, both risk and uncertainty can be desirable from the point of view of a politician (Bronk & Jacoby, 2020), with the entire socio-political environment a tool that is much more actively manipulated by political actors (Chesterley & Roberti, 2018). This is especially true when the point of the exercise is to disrupt the existing balance between winners and losers from the system, the domain of populism, which brands itself as not only anti-elite but also fundamentally as "of the people." At the same time, the ongoing haphazard response to COVID-19 across national and sub-national jurisdictions has shown just how crucial the role of specific leaders can be in shaping public policy in a manner that operates, at times, far beyond common institutional frameworks. Indeed, those focused on issues of "institutional quality" would be extremely hard pressed to argue that the highly variable response and success/failure rates of major developed economies has anything to do with their institutions and has much more to do with the decisions made by politicians.

What this implies for firms is that dynamic political capabilities become more critical in an uncertain environment (e.g., Henisz, 2016) and that real options increase in value. The greater the uncertainty, the more firms must wait for information to be revealed and the faster they must react to that information once it becomes known (Dai & Zhang, 2019; Jens, 2017). Hence, preparedness aforethought becomes a critical operational need for MNEs. Opportunities have to be seized more quickly but also divested faster and long-term reconfiguration of assets or associations becomes riskier and hence of lower long-term value, particularly if firms have to have a strategic stockpile of options waiting in the wings. As Wilden et al. (2018) show, the greater the "non-stationary" component of the business environment, the less value there is in long term dynamic capabilities and the less valid are models aimed at predicting policy changes. Even governments that manage policy via poll numbers struggle in this environment as the "base" may not be consistent or even predictable in its preferences (e.g., not knowing even what they want, other than something different from what they have been getting). All of these realities mean firms must find new ways to adapt, ways that remain (at the moment) out of the reach of extant theories. By focusing exclusively on underlying institutions or specific, narrow risks, a firm could easily miss the where, why and by whom the unknown/unknowns are being generated (see, e.g., Weinberg, 2020 on who decides to be a politician and why). This implies a need to move more towards real option strategic logics with components of strategic and operational modularity that allows for flexible response.

For firms and researchers in the coming years, there should be a focus on the specific attributes of political leaders and how they impact the myriad of firm decisions; this is perhaps the only way to give firms and managers a fighting chance in adapting to a rapidly shifting global situation. Unlike the rather ad hoc nature of the previous thirty years in piecing together research on risk and uncertainty, we should be striving for a framework that can take into account situational and personality attributes in addition to institutional ones, incorporating the role of specific political actors and their abilities within an institutional matrix. This is a crucial point because, as recent research shows (Funke et al., 2020), both populism and the disruption of pandemics persist long after the specific actors who initiate policies disappear off of the stage. Such a framework, creating a much more unifying approach to the nexus of politics and business and examining leaders, institutions, and policies, can offer much more trenchant insights for understanding how firms can and should operate, reacting to the use of risk and uncertainty as a political weapon, and adapting to the new reality of institutional volatility.

Finally, at another level, what we are arguing for is a more foundational understanding of political risk and uncertainty that takes into account the fact that human beings matter to institutional and societal decision making and outcomes. A number of scholars have pushed a viewpoint that "managers matter" (see, e.g., Devinney, 2011; Buckley & Casson, 2019) and that there needs to be an incorporation of the role and decision-making latitude of the manager (or managers) into our theoretical frameworks and empirical models. At a minimum, the burden of proof should be on scholars to show under what circumstances managerial agency does and does not matter. We argue that the same logic and reasoning applies to socio-political agents in the international context. If it did not, we could argue that who won elections (or staged a coup) really doesn't matter since the institutions may not change much. But we know this is not true (Jones & Olken, 2005). Who holds power determines not just policy at the local level but also the geopolitical landscape in which MNEs operate. Our theories would not only gain from such a perspective, but our voice into global policy discussions would be enhanced by our ability to have nuanced and more immediately relevant understanding of the ebbs and flows of trade and economic policy (and hence be able to speak more saliently to those determining such policies). While international business has wholeheartedly embraced a belief that institutions matter to the environment in which MNEs operate, we believe it needs to take the next step by recognizing that "politicians matter" in the structure and use of those institutions - and that, without understanding the motivations of politicians, we cannot understand how the institutional vehicle is being driven.

To conclude, we argue that it is incumbent on IB scholars whose work deals with political uncertainties and institutional environments work to take into account more about the personalities of the key agents of influence in institutional environments. At a minimum, if it is argued that politicians and government agents do not matter compared to the semi-permanent edifice of an institution, then it should be shown explicitly that they do not matter. In most cases, this amounts to incorporation of the political and government leadership into an analysis: this need not be as detailed as the replication of the work in political science and psychology on the personality traits or decision-making styles of politicians (e.g., Bakker, Schumacher, & Rooduijn, 2020; Sheffer, Loewen, Soroka, Walgrave, & Sheafer, 2018) but can be as simple as accounting for political variety in a society (e.g., something akin to cultural tightness), the orientation of the parties in power (e.g., on political orientation scales), the experience and background of the leadership group (e.g., have they been in power before), and so on. In addition, it is critical for researchers to distinguish between environments that represent business-as-usual stability – a world where the unknowns are either known or are few in number and potential impact – and those that represent persistent or truncated instability – a world more populated by unknown/unknowns. In the former environment (which has been what IB scholars have mostly studied) our institutional models most likely work quite well, as the stability does not test the limits of the institutions and it may be that the institutions drive policy and decision-making rules (Page, 2012). In the latter case, key agents come to dominate institutions as the decisions that need to be taken do not have ready analogs and require bespoke and potentially highly variable responses. In this sense, political agents become more entrepreneurial (e.g., less poll driven) in their decision making as simple historic lessons have less relevance and their constituencies/stakeholders look to them for leadership rather than simply delivery of an expected political outcome. It is also more likely that politicians will come into conflict with institutional bureaucracies and overrule their recommendations. It is also the case that politicians chosen and elected in these environments are different from those elected in more stable periods (Coller, Cordero, & Jaime-Castillo, 2018). It is these latter environments we need to study more intensively to glean the lessons that we can extract from unique outlier natural experiments. While some of this work has been done with respect to conflicts, climate events and, now, COVID, it is important that we build a larger corpus of work that allows us to mitigate the known/ and unknown/unknowns and thereby enhance our practical impact on policy.

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