

Populist Politics Can Push Entrepreneurs Underground

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When political leaders attack public institutions, entrepreneurs may become less willing to formally register their businesses—and more likely to operate informally.

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Populism has become an increasingly powerful force across many countries around the world, including the United States, China, Russia, Argentina, and Mexico. At its core, populist leaders frame society as a conflict between “ordinary people” and “corrupt elites,” often portraying governments, regulators, courts, and public institutions as biased, self-serving, or disconnected from the public (Mudde, 2004). Although populist movements on both the left and right differ politically, they often share one common feature: They portray governments, regulators, courts, and public institutions as corrupt or controlled by elites rather than serving ordinary people.

For entrepreneurs, this political messaging—commonly referred to as populist rhetoric that undermines institutional trust—creates an important challenge (Bennett et al., 2023). Individuals starting businesses often rely on the assumption that democratic institutions are relatively stable and predictable. Formal business registration can provide legitimacy, legal protections, access to financing, and opportunities for long-term growth. But when political leaders repeatedly question the credibility and trustworthiness of democratic institutions, entrepreneurs may begin reassessing whether operating formally actually reduces risk—or instead increases exposure to uncertainty. In these

environments, some entrepreneurs may choose to stay under the radar by operating informally rather than officially registering their businesses.

Our research examined how populist rhetoric shapes this decision. Specifically, we explored whether populist rhetoric redirects entrepreneurial activity away from formal venture entry and toward operating businesses without formally registering them (i.e., informal entrepreneurship). This decision to operate formally or informally is fundamentally important because it shapes a venture's visibility, access to resources, governance structure, legal protections, and long-term growth trajectory.

Our Hypotheses

We argue that populist rhetoric can function as more than political communication or background noise. It can reshape how entrepreneurs interpret the institutional environment. By portraying institutions as corrupt, biased, or controlled by elites—including business leaders and founders—populist rhetoric can undermine confidence in the stability and neutrality of formal governance, and subsequently influence how founders think about registering and formalizing their businesses.

We expected that exposure to such rhetoric would heighten perceptions of institutional uncertainty and distrust, leading entrepreneurs to carefully weigh the risks associated with formal participation. Importantly, this does not imply that entrepreneurs avoid launching a business. Rather, we expected that people would deal with perceived institutional instability by launching an informal business or not registering it.

We also expected that specific countries would have a huge influence on these decisions. In societies where rules and social expectations are more strongly enforced, individuals tend to be more sensitive to signals about institutional stability and order (Gelfand et



al., 2011). For example, in countries where political and social conformity are more closely monitored and deviation from accepted norms carries stronger social or institutional consequences—such as Nicaragua, Venezuela, or Turkey—entrepreneurs may perceive formal participation as unpredictable, politically exposed, and risky. In these environments, populist rhetoric may heighten concerns about institutional instability even more, making informal entry appear comparatively safer despite otherwise strong expectations to comply with formal systems.

What We Studied

To test these ideas, we analyzed data from more than 10,000 ventures across 13 countries, combining firm-level survey data with measures of populist rhetoric -- derived from the content of national leaders' speeches and capturing the extent to which political discourse emphasizes anti-elite narratives and challenges institutional trust (Bennett et al., 2023).

We also looked at country-level indicators of “cultural tightness,” which capture how strongly societies expect people to follow rules and social expectations, and how likely people are to face criticism or consequences when they do not. It reflects the strength of social norms and how much societies enforce compliance and punish deviation (Gelfand et al., 2011).

This design allowed us to examine how entrepreneurs respond to the prevailing rhetorical environment when they are launching their businesses, and how that response varies by country. Our key outcome captured whether entrepreneurs entered formally or informally—specifically, whether a venture was registered at the time it began operations. This allows us to focus directly on the founding decision, rather than later-stage outcomes.

What We Found

The findings reveal a clear pattern. Higher levels of populist rhetoric make it more likely that entrepreneurs begin their ventures informally. In other words, populist rhetoric does not simply discourage entrepreneurship—it redirects entrepreneurial activity away from formal business registration and toward operating outside formal systems. Moreover, this effect becomes even stronger in societies where rules, compliance, and social expectations are traditionally enforced more closely.

This effect is not trivial. Small shifts in populist rhetoric may have significant consequences for entrepreneurship by increasing the likelihood that people start businesses in the informal economy rather than through formal channels. Moreover, this relationship becomes significantly stronger in culturally tight societies. In these environments, where norms are typically enforced and compliance is expected, populist rhetoric has a counterintuitive effect: it heightens sensitivity to institutional fragility, making formal engagement appear riskier and less predictable.

Importantly, our analysis further showed that the relationship is more pronounced under left-wing populist rhetoric than under right-wing populist rhetoric. This suggests that not all challenges to democracy and institutional legitimacy operate in the same way. Left-wing populist rhetoric, which more directly targets economic institutions, markets, and regulatory systems, appears to generate stronger uncertainty around formal participation, thereby increasing the likelihood that entrepreneurs delay formal registration or operate outside official business systems (Sanchez et al., 2026).

What is particularly notable is that informal entry emerges not as a necessity-driven fallback, but as a strategic response. Entrepreneurs are not exiting the system due to incapacity; they are actively choosing to limit their exposure to institutions they perceive as unstable or politically compromised.

Takeaways

The central insight is that political discourse and social norms shape how new entrepreneurs approach launching their business. Founders are not only responding to policies and regulations, but also to signals about whether those institutions can be trusted.

However, entrepreneurs should be aware that operating outside formal systems carries important trade-offs. Businesses that remain unregistered or operate under the radar may preserve short-term flexibility and reduce exposure to institutional uncertainty, but they may also face more limited access to financing, weaker legal protections, fewer growth opportunities, and greater difficulty building formal partnerships over time.

Founders operating in politically uncertain environments may need to pay closer attention to signals surrounding regulatory stability, consistency in rule enforcement,

changes in licensing or registration requirements, and broader trust in public institutions when deciding whether to formally register a business or remain informal during the early stages of venture development. For some entrepreneurs, remaining unregistered may be a temporary strategy for testing opportunities and preserving flexibility before formally entering official systems once institutional conditions appear more stable and predictable.

Takeways for Policymakers and Ecosystem Builders

Encouraging formal entrepreneurship requires more than improving regulations or reducing bureaucratic burdens. It also requires maintaining institutional credibility. When political rhetoric undermines trust in institutions, even well-designed systems may fail to attract formal participation.

For policymakers, this means that promoting entrepreneurship is not only about designing efficient regulations, but also about maintaining confidence that institutions will operate consistently, predictably, and fairly. For entrepreneurial ecosystem leaders -- including incubators, accelerators, and local business organizations -- the findings suggest that helping founders navigate institutional uncertainty may become increasingly important in politically polarized environments.

Ultimately, entrepreneurship is shaped not only by the structure of institutions, but also by how those institutions are perceived. Populist rhetoric that undermines institutional trust can alter those perceptions in ways that meaningfully redirect how new businesses are born.

Explore the Research

"Populism, cultural tightness, and informal venture entry."

(<https://www.sciencedirect.com/science/article/abs/pii/S0883902626000170>) *Journal of Business Venturing*, May 2026.

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