

# **Firms' perception of the investment climate: Evidence from the international investment regime**

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## **Abstract:**

Firms perceive policy and regulatory environment through their own experience, behaviors of prominent actors and structural factors. However states can also demonstrate their willingness to strength investment climate by participating in international institutions. Does this alter firms' assessment of the domestic investment climate? Focusing on the global investment treaty regime that allows some firms to bring legal claims for alleged property rights violations against sovereign states in an international venue, we compare observer firms' assessment of their own domestic investment climate shortly before versus after a ruling by a tribunal to obtain (quasi-) random variation in the extent to which observer firms were exposed to international institutions. Our analysis of 14,338 firm responses across 16 countries indicates observer firms' assessment of the investment climate is shaped by the ruling.

## Introduction

How firms perceive their institutional environment affects important outcomes such as their compliance with regulations (Malesky and Taussig, 2017), unethical behavior (Spencer & Gomez, 2011), competitive aspirations (Shinkle & Kriauciunas, 2012), internationalization (Guler & Guillen, 2010; Meyer, Estrin, Bhaumik & Peng, 2009), and investment and employment strategies (Baker, Bloom & Davis, 2016). This is especially relevant in emerging markets characterized by weak investment climates, where firms worry about the stability of policy, ease of access to licenses, transparency in tax collection, and the rule of law (Hall & Jones, 1999; Dollar, Hallward-Driemeier & Mengistae, 2006). Prior research in strategic management has largely focused on how firms' perceptions of the institutional environment reflect their own experience (Jandhyala, 2013; Perkins, 2014; Malesky & Taussig, 2017), actions of other prominent or salient actors (Guillen, 2002; Vasudeva et al., 2018), or structural factors in the domestic policymaking process (Holburn & Zelner, 2010; Garcia-Canal & Guillen, 2008; Henisz & Macher, 2004). While this literature has yielded important insights, it has not addressed another inevitable factor that has been identified in political economy studies. Scholars of this stream have argued that states can enhance investor confidence in the domestic institutional environment by adopting, adhering to, or participating in international institutions (Allee & Peinhardt, 2011; Baccini & Urpelainen, 2014; Gray, 2009). These include, for example, the World Trade Organization, international trade and investment agreements, inter-governmental organizations, and international treaties. Such institutions can bind sovereign states to a more liberal investment climate, improving property rights protection and enhancing competition for both foreign and domestic firms, through international legal, political, or normative mechanisms (Keohane, 1984; Abbott & Snidal, 2000; Finnemore & Sikkink, 1998).

By committing to, and complying with, international institutions, states thus trade sovereignty for institutional credibility (Moravcsik, 2000; Hafner-Burton, Mansfield & Pevehouse, 2015).

In this study, we focus on one such institution – the global investment treaty regime – and examine whether international institutions influence firms’ perception of their institutional environments. Participating in investment treaties is one avenue for countries to indicate their commitment to a sound, secure, and stable investment climate (Elkins et al., 2006; Jandhyala et al., 2011). The most significant element of the investment treaty regime is an alternate system of legal dispute resolution wherein foreign investors can directly hold host governments accountable for property rights violations through international arbitration (Simmons, 2014). A firm’s legal claim against a sovereign state can be settled by an independent arbitration tribunal outside the jurisdiction of the host country (Salacuse, 2007). This system has been widely used in recent years, with over a thousand claims filed by firms against sovereign states (UNCTAD, 2022). States consent to this form of investor-state dispute settlement (ISDS) in part to increase the confidence of firms who worry about the country’s investment climate and the trustworthiness of local courts to adjudicate disputes. However, empirical analyses of the reputational consequences of ISDS claims have resulted in mixed findings. For instance, Allee & Peinhardt (2011) found ISDS claims to deter other investment in the country as confidence in the investment climate is tarnished, while Blake & Moschieri (2017) and Kerner & Pelc (2021) found limited (or no) evidence of this. The mixed findings may be driven by the fact that many investors are pursuing low-merit claims (with low rates of success) to deter ambitious regulations by governments rather than seek compensation for perceived property rights violations (Pelc, 2017). In this case, we contend any reputational effects should follow from tribunals ruling on government actions, rather than investment claims by firms.

We ask: How does the decision of an ISDS arbitration tribunal, ruling on an investment dispute between a foreign investor and the host government, influence observer firms' perception of the domestic investment climate? We argue that a legal ruling by an independent and international arbitration tribunal in favor of the state will be perceived by observer firms as a legitimating symbol of the country's investment climate. As the literature on certification indicates, when institutional actors with authority or status formally acknowledge that another actor meets a particular standard, it offers symbolic value that shapes outsiders' evaluation of the entity being certified (see Sine et al., 2005; Sine et al., 2007; Lanhan & Armanios, 2018). A ruling in favor of the state serves as evidence to observer firms that the actions of the state are consistent with prevalent international rules and norms. Firms that observe the ruling, but are not directly affected by it, nonetheless infer that the state has been protecting property rights and provides an investor-friendly investment climate. Thus, we expect firms observing an arbitral ruling in favor of the state to subsequently evaluate domestic legal institutions more positively. In contrast, when observing a ruling against the state, firms assess that the state's actions are inconsistent with international rules and norms and the state is not committed to an investor-friendly investment climate. As a result, firms observing a ruling against the state will assess domestic institutions as more challenging.

From an empirical perspective, this analysis is difficult to conduct. The main challenge is to find a control group that provides a counterfactual of how firms would have assessed the domestic investment climate had they not been affected by a tribunal ruling. To obtain such a control group, we exploit a database of firm-level surveys conducted across countries by the World Bank and the exogenous nature of the tribunal ruling. We focused on country surveys that happened to be in progress at the time of a tribunal ruling. Since the timing of the tribunal ruling as well as

the actual decision of the tribunal (ruling in favor of or against the state) is likely to be independent of the survey, we compare firm-responses in a given country just before and just after the tribunal ruling. As long as *when* the firm was surveyed is essentially as good as random, this quasi-experimental approach can allow us to estimate the causal effects of the tribunal ruling.

We identify 18 rounds of the World Bank's Enterprise Survey, spanning 16 countries and 14,338 firm-responses, wherein the duration of the survey also encompassed an arbitral ruling by a tribunal. We find that a state win is associated with 1.9-2.6 percentage points decline in a firm's assessment of domestic investment climate as a severe obstacle to their operations. In contrast, a state loss is associated with 5-6.5 percentage points increase in a firm's assessment of investment climate as a severe obstacle to their assessment.

Our paper offers two contributions to the literature. First, we contribute to research on how firm's perceptions about institutional conditions are shaped by external factors. In contrast to prior research's focus on own experience (Jandhyala, 2013; Perkins, 2014; Malesky & Taussig, 2017) or structural factors in the domestic policymaking process (Holburn & Zelner, 2010; Garcia-Canal & Guillen, 2008; Henisz & Macher, 2004), we highlight how international institutions influence firm's assessment of domestic institutions. Second, we contribute to the debate on how investment treaties influence firm behavior. Some scholars argue for an instrumental role of investment treaties wherein only foreign firms with access to treaty-based dispute settlement benefit from stronger institutions (Elkins et al., 2006; Jandhyala & Weiner, 2014). Others contend that even foreign firms that are not directly protected by a treaty benefit from it as the treaty provides a credible and visible signal of a state's commitment to a sound,

secure, and predictable investment climate (Buthe & Milner, 2009; Kerner, 2009). By highlighting a certification role, our analysis offers an alternate mechanism by which firms – both foreign and domestic – shape their expectations of the state’s institutional environment. Our findings are also relevant to the study of institutional voids. As scholars have previously suggested, firms can “borrow” external institutions to overcome weak domestic investment climates (Siegel, 2005; Siegel, 2009; Pinkham & Peng, 2017). In contrast to the firm-led efforts highlighted in this literature, we suggest an alternate state-led approach – through participation in international institutions – to overcome perceptions of weak domestic investment climates.

### **Empirical Context: Investor-state Dispute Settlement Mechanism**

A country’s investment climate in general plays an important role in shaping firm strategy. To signal a commitment to a more liberal investment climate many developing countries have begun to participate in the global investment treaty regime – which includes Bilateral Investment Treaties and investment chapters of Free Trade Agreements. Investment treaties entitle foreign firms from signatory countries to be treated in a fair manner and on par with domestic investors. Perhaps most importantly, investment treaties also allow foreign firms to exercise these guarantees through an international legal mechanism, the Investor-State Dispute Settlement system. If a firm believes that its property rights have been unfairly violated by host governments, and seeks a fair process for resolving disputes, it can sue the host government in international arbitration without the obligation to use that country’s domestic courts. In other words, disputes that might otherwise be settled in domestic courts can be adjudicated by an

arbitration tribunal outside the jurisdiction of the state.<sup>1</sup> Arbitration proceedings most commonly occur at the World Bank's International Center for the Settlement of Disputes (ICSID). Upon a firm's notice, a temporary tribunal is formed to arbitrate the dispute. The tribunal typically consists of three arbitrators – with one party-appointed arbitrator for each party and a mutually chosen third arbitrator who is the president of the panel. This outstanding feature is recognized as the source of independence and impartiality of ISDS by legal scholars (XXX). The focus of the tribunal is usually on the plaintiff's request for a monetary award. Unlike domestic courts, states have little control over the tribunal's process or final decision. The decisions also have limited avenues for appeal.

Although the arbitration system has faced criticism, the independence of tribunals is, to legal scholars, the most prominent attribute of the ISDS (Franck & Wylie, 2015). And while some disputes remain confidential, there is increased visibility and transparency in many aspects of the system. Information related to claimant companies, respondent states, adjudication venues and arbitration tribunals is often publicized. Related legal documents are also often available. In addition, ISDS claims and tribunal rulings often make headlines in newspapers and social media. For example, a \$5.84 billion ICSID award against Pakistan in July 2019 in a mining dispute was widely covered in the Pakistani press (Dawn, 2019; The Express Tribune, 2019). Moreover, while ICSID did not publish the details of the court ruling on a claim made by an Italian investor against the Albanian government, local media disclosed Albania had to pay €11 million. A study of the impact of media coverage on ISDS finds that public opinions do change according to the media reports of ISDS rulings (Brutger & Strezhnev, 2022). Thus, non-litigant firms can observe

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<sup>1</sup> By comparison, the dispute settlement system at the WTO only allows *states* (not individual firms) to raise claims against other states. The international human rights courts require claimants to exhaust domestic remedies before using the international forum

ISDS awards for or against home governments and re-evaluate their perception of the domestic investment climate.

## **Theory and Hypotheses**

### **Investment climate and international institutions**

As in prior research, we conceptualize the investment climate as the “social infrastructure” (Hall & Jones, 1999) or the institutional policy and regulatory environment in which firms operate (Dollar, Hallward-Driemeier & Mengistae, 2006). It encompasses factors such as the stability of policy, provision of financial services, ease of access to licenses, transparency in tax collection, and the rule of law. The investment climate, therefore, determines the economic environment within which firms accumulate capital and produce output.

Countries with well-functioning institutions typically have efficient rules governing the economy and maintaining a friendly investment climate. When such a framework is absent or underdeveloped, the consistency of policy and regulation is no longer the default (). This is a particular concern in developing countries, where the policy or regulation-making processes lack checks and balances that would otherwise prevent policy makers from volatile and frequent changes (Henisz, 2000; Holburn & Zelner, 2010). Typically, without a solid foundation of supporting policy and regulation, contract-enforcing infrastructure, specialized intermediaries, effective license regime, credible banking services, and efficient communication channels are missing or poorly functioning in these territories (Khanna & Palepu, 2010; Sanchez & Ricart, 2010; Doh et al., 2017; Kingsley & Graham, 2017). These add exponential transaction costs to firms’ operations, making the investment climate challenging for firms.



Prior research in strategic management and international business has highlighted how firms update their expectations about investment climate and revise investment and employment strategies accordingly. For example, Holburn and Zelner (2010) found that firms from countries with a weak institutional environment are less likely to be concerned about political risk than other firms. Vasudeva et al. (2018) disclosed the signaling effect of prominent actors. Norwegian and Swedish firms perceive better quality of investment destinations where Norwegian Sovereignty Wealth Fund holds more investments. In addition, firms attribute greater legitimacy to governments if their own participation in policy making is respected (Malesky & Taussig, 2017). In a study of the U.S. electric utility industry, Fremeth and Shaver (2014) revealed firms expect changes in local regulation based on the potential policy diffusion in the future.

Nonetheless, fewer studies have ever utilized a macro lens through the role of international institutions, given the fact that they are designed to enhance investors' confidence in countries' investment climate. We supplement this literature with a new perspective that firms rely on international institutions to assess the hidden attributes of countries' investment climate.

On the other hand, the role of international institutions has been widely explored by scholars of political economy. They argue countries can strengthen investors' confidence in their investment climate by adopting or participating in international institutions, such as the World Bank, regional or bilateral investment agreements, and inter-governmental organizations. These institutions impose restrictions on the behavior of states and enforce them through international legal, political, or normative mechanisms (Keohane, 1984; Finnemore & Sikkink, 1998; Abbott & Snidal, 2000; Elkins et al., 2006; Jandhyala & Weiner, 2014). For instance, the International Development Association of the World Bank screens the performance and policies against debt-borrowing countries periodically. And a bilateral investment agreement typically includes a

requirement of fair and equitable treatment, restricting arbitrary government actions against firms. Thus, states trade sovereignty for institutional credibility (Moravcsik, 2000; Hafner-Burton et al., 2015). In the economic realm, the investment treaty regime provides one avenue for states to commit to a sound, secure, and predictable investment climate (Elkins et al., 2006; Jandhyala et al., 2011). It allows states to indicate their commitment to a liberal investment climate providing greater confidence to firms – both foreign and domestic – that government will offer stable policy, appropriate access to licenses, transparent tax collection, and the rule of law.

However, results remain mixed on whether the investment treaty regime does generate any influence on firms' beliefs about a country's investment climate (Allee & Peinhardt, 2011; Blake & Moschieri, 2017; Kerner & Pelc, 2021). This could be attributed to the phenomenon that firms move strategically to make a pause on certain policies by initiating frivolous (low-merit) claims against governmental actions. Since 2006, ICSID have adjudicated on 11 claims that lack legal merit (ICSID, 2022). So compared to investment claims by firms, tribunal rulings should be more credible to convey any reputational effect. Moreover, the extant findings mainly focus on foreign firms as only they are able to file litigations against governments through international arbitration, taking the silence of domestic firms for granted. In this study, we aim to discover how firms – both domestic and foreign – perceive the domestic environment when they observe ISDS arbitration tribunal rulings on investment dispute between foreign investors and host governments.

### **Legitimizing effect of international institution (spillover effects)**

We contend a legal ruling by an independent tribunal will be perceived by observer firms as a legitimating symbol of the investment climate. As the certification literature suggests, when an

institutional actor with authority or status formally acknowledges that another actor meets a particular standard, it provides a symbolic value that the latter is complying with the accepted norms and rules (Sine et al., 2007). The certified actor is then rewarded legitimacy by observers (Scott & Meyer, 1983). For example, products certified by ISO are considered as owning standardization and quality assurance; start-ups certified by authorities receive more confidence in an entrepreneur's ability to obtain resources. An organization's legitimacy is perceived to be desirable, proper, or appropriate in a social setting (Suchman, 1995), without which necessary resources, like licenses, capital, labor and partners, are difficult to obtain (Parsons, 1960). As such, it is important to demonstrate conformity "to the dictates of pre-existing audiences" (Suchman, 1995, p.587), despite whether the conformity is largely decoupled from actual practices (Meyer & Rowan, 1977). The symbolic act of certification by institutional actors reveals their endorsement on some hidden attributes and behaviors of organizations (Sine et al., 2007). It draws the attention of observers to a meaning that goes beyond the intrinsic content of the action (Zott & Huy, 2007), imparts legitimacy to the certified actor, and can shape outsiders' evaluation of the entity being certified (see Sine et al., 2005; Lanhan & Armanios, 2018).

Legitimacy can also flow from the legal system (Weber, 1947). Legal judgments at the state level facilitate the spread of civil service reforms through legitimation (Tolbert & Zucker, 1983). A favorable legislative environment is positively related to the establishment of railroad companies (Dobbin & Dowd, 1997). Similarly, we argue, international tribunals, acting as an independent and public audit, generate legitimacy of a government's behaviors. It is symbolic in that they do little in regulating government actions in dispute. States are under no obligation to revoke an adjudicated policy. Instead, through legal rulings, international tribunals certify

whether the behaviors of states are consistent with their promises to provide a fair and secure investment climate when signing into the investment treaty regime.

We contend the certification effect is not only attentive to foreign firms as only they have access to litigation against states, but also domestic firms who are not directly involved. When a tribunal rules in favor of the state, firms that observe the ruling infer the evidence of commitment to treaty obligations. They also accrue the adjudicated policy to the country's overall regulatory and policy environment. Therefore, firms conclude the state's actions are legitimate and it is strengthening its domestic investment climate.

This is consistent with the literature in international relations that argues rulings by international courts influence the policies of states not party to the litigation. For example, Helfer and Voeten (2014) considered which rulings of the European Court of Human Rights may influence policy within states not party to the ruling. Kim and Sikkink (2010) demonstrated human rights prosecutions reduce repression not only in the country in which they are conducted but also in neighboring states. WTO rulings in trade law carry spillover effects across borders and products (Kucik & Pelc, 2016).

On the other hand, a ruling against the state suggests that the state's actions are not legitimate and deviate from the commitment to protecting property rights. Firms observing this may assess the investment climate as more challenging. A ruling in favor of neither disputants is rather silent, as it does not certify the actions of a state, thus unable to shape firms' assessment.

Specifically, we hypothesize:

*Hypothesis 1a* (state win): A legal ruling by an independent international tribunal in favor of the state has a positive effect on observer firms' perception of the investment climate.

*Hypothesis 1b* (state loss): A legal ruling by an independent international tribunal against the state has a negative effect on observer firms' perception of the investment climate.

*Hypothesis 1c* (neutral): A legal ruling by an independent international tribunal neither in favor of nor against the state has no effect on observer firms' perception of the investment climate.

## **Empirical Analysis**

### **Research design and data**

We exploit a quasi-natural experiment to assess whether a legal ruling by an international body influences firms' perception of domestic courts. We draw on two publicly available datasets to test our arguments: the UNCTAD's Investment Dispute Navigator to identify outcomes of legal claims filed by firms against governments and the World Bank's Enterprise Survey data to identify firms' assessments of investment climate.

UNCTAD's Investment Dispute Settlement Navigator catalogues all publicly known treaty-based investor-state litigations via ISDS, identifying over 1,000 claims by firms against 122 countries by 2020. Tribunals may decide in favor of the state (state-win), in favor of the investor (state-loss), or in favor of neither party (neutral). The legal proceedings are recorded in detail, including the claimant firm, the respondent state, the date of the final award and the size of the

award if the firm wins. In general, the tribunal ruling is affected by a complex set of factors including the processing of memorials submitted by both litigants, investigating factual background, identifying testimonials by witnesses, investigations, and finding availability of holding hearings. The ruling (and its timing) is therefore hard to predict in advance.

To measure our outcome variable, we rely on data from the World Bank Enterprise Surveys (WBES). This data source has been widely used by management researchers to examine a variety of questions such as corruption (e.g. Spencer & Gomez, 2011; Birhanu, Gambardella & Valentini, 2016), firms' political influence (Macher & Mayo, 2015; Choi et al., 2015) and firm internationalization (Lee & Weng, 2013). The Enterprise Surveys are firm-level surveys of a representative sample of a country's private sector, where the survey frame is derived from the universe of eligible firms as determined by the country's statistical office, tax or business license authorities, and business associations. The sample is generated using stratified random sampling, where the strata are firm size, business sector, and geographic area of the country. The survey is focused on formal (registered) firms with 5 or more employees in the manufacturing and services sectors. State-owned firms are excluded from the sample.

The survey is typically answered by business owners and top managers. An overwhelming majority of respondents (typically over 90%) are domestic firms, with the rest being local subsidiaries of foreign firms. Through standardized questionnaires that are comparable across countries, the surveys assess a broad range of business environment factors and constraints to firm growth or operations.

In the period 2006-2021, 301 surveys were conducted in 151 countries, capturing responses from over 174,000 firms. Since collecting primary data from a representative sample of firms is time-

consuming, an individual survey round can last anywhere from several months to well over a year. For example, the Mexico 2006 survey was conducted over 6 months, between April and September 2006. In contrast, the Vietnam 2015 survey ran from November 2014 to September 2016. Notwithstanding the variation in the length of the survey round, there does not appear to be any systematic rules determining which firms are surveyed before others in each country. In addition, every firm-level response is tagged with the date on which the firm was interviewed – a key feature that we exploit in our analysis. By comparing firm-level responses in a given country before and after a time-specific salient event, we can reasonably estimate the effect of the ISDS tribunal ruling.<sup>2</sup>

Examining the start and end dates for each of the 301 rounds of the Enterprise Surveys, we carefully check if the date of an international arbitration tribunal’s ruling lies within the survey interval. We identify 28 rounds of the survey, covering 21,663 observations, where a tribunal ruling occurred within the survey period. We then exclude survey rounds that have multiple ISDS rulings in the same survey period. We also drop survey rounds where less than 10% of responses occurred before or after the tribunal ruling. Our final sample consists of 18 tribunal rulings and 18 rounds of surveys, covering 16 countries and 14,338 firm responses. Our sample construction process is summarized in Table 1.

--- Table 1 ---

Our sample includes 10 tribunal rulings that were in favor of the state (state win), 5 in favor of the investor (state loss), and 3 in favor of neither party (neutral). In our analysis below, we use three

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<sup>2</sup> Our research design is similar to Goldsmith, Horiuchi & Matush (2021) who compare responses of interviewees before and after a high-level diplomatic visit by a foreign leader to find that diplomatic visits can increase public approval among citizens.

sub-samples corresponding to the win, loss, and neutral rulings. Table 2 indicates the distribution of these rulings, as well as the dates associated with each ruling and the surveys. Additional details of each legal case are summarized in the Appendix (Table A1).

--- Table 2 ---

## **Variables**

Our main dependent variables are the observer firm's assessment of the domestic investment climate. We focus on three key elements – domestic courts, licensing, and tax administration. These elements are important for firms' operations and are constituents of regulatory and policy environment (Holburn & Zelner, 2010). Disputes about these elements of the investment climate are also invoked in a majority of ISDS claims, as well in our sample of disputes.

*Severe obstacle:* The dependent variable is constructed from the WBES question that asks respondents to assess major obstacles in the institutional environment through the question: “*To what degree are <courts>/ <licenses>/ <tax administration> an obstacle to the current operations of this establishment?*” Firms were asked to identify the extent of obstacle using a five-point Likert scale (0 = No obstacle, 1 = Minor obstacle, 2 = Moderate obstacle, 3 = Major obstacle, 4 = Very severe obstacle). We transform this response into a binary variable that takes the value 1 if the response is ‘Major obstacle’ or ‘Very severe obstacle’ and 0 otherwise.

*Post ruling:* Our main independent variable is whether a firm response was recorded after the event (*Post ruling* = 1) or before (*Post ruling* = 0). We exclude responses recorded on the date of the ruling. Aggregating over the whole sample, approximately 36% of firm responses were



recorded after a tribunal ruling. Since we use three subsamples – state win, state loss and neutral – the corresponding variables are respectively *Post win*, *Post loss*, and *Post neutral*.

Additional control variables: We control for a range of additional factors that may affect firms' assessment of investment climate. These factors consist of firm sales, management experience, and firm innovation (e.g. Zaheer, 1995; Desbordes & Vauday, 2007; Holburn & Zelner, 2010; Beukel & Zhao, 2018). To control for firms' self-reported assessment of the institutional quality, we add management time spent on govt regulations and political instability obstacle. Table 3 describes the variables, and Table 4 summarizes the correlations. In Table 5, we present descriptive statistics for the three subsamples.

--- Tables 3, 4 & 5---

## **Model**

To examine the effect of an ISDS ruling, we compare the difference in firms' assessment of courts as a severe obstacle *before* and *after* a ruling. The unit of observation is each firm respondent for each ruling. Our treatment is whether the respondent was interviewed *after* the tribunal ruling (*Post ruling* = 1) or *before* it (*Post ruling* = 0). We estimate the average treatment effect by running a linear probability model with the treatment variable and survey- and industry-specific fixed effects. The survey specific fixed effects are important in our estimation because we want to compare firms' responses before and after a *specific* ruling involving a state. For example, to estimate the effect of a pro-state ruling in the case of the Czech Republic in 2013, we estimate the difference in outcome variable before and after the 15 May 2013 ruling. In any given country, there may be idiosyncratic events that may be related, by chance, to a ruling. By

aggregating ruling specific effects across multiple rulings and estimating the average treatment effect, our results are less likely to be influenced by such idiosyncratic effects.

As in Goldsmith et al. (2021) and Flammer and Ioannou (2021), the key identifying assumption in our analysis is the as-if random assignment of respondents to the treatment and control groups. In particular, the choice of firms surveyed early and late in a specific round should not be correlated with the outcome. We contend this is a reasonable assumption. The WBES surveys encompass a wide range of questions examining different aspects of the business environment. It is unlikely that assumptions about responses to a particular question determine the sequence in which firms are interviewed in a given survey. In addition, the interviews themselves are outsourced to private contractors and are often carried out in cooperation with business organizations and government agencies promoting job creation and economic growth. Thus, the sequence of interviews in each survey is likely to reflect some country-specific factors. Finally, the nature of the ruling itself is unknown ex-ante. The result of an ISDS tribunal's ruling is not known to the survey designers.

We estimate firms' responses to the treatment by estimating the following regression:

$$y_i = \alpha_j + \delta_k + \beta * treatment_i + \gamma'X_i + \varepsilon_i$$

Where  $i$ ,  $j$ , and  $k$  index the firm, industry, and survey respectively;  $\alpha_j$  are industry fixed effects;  $\delta_k$  are survey fixed effects;  $y_i$  is the outcome variable of interest – i.e., firms' assessment of the investment climate;  $treatment$  is the treatment dummy that is equal to one for firms in the treatment group (*Post-win*, *Post-loss*, and *Post-neutral*) and zero for firms in the control group;  $X_i$  is the vector of control variables, which includes *firm sales*, *management experience*, *firm*

*innovation, management time on govt regulations, and political instability obstacle*; and  $\varepsilon_i$  is the error term. The coefficient of interest is  $\beta$ , which captures the difference in outcome between the treated and control groups. We use linear probability models for analysis, alternative model specifications are included in the robustness checks.

## Results

The results of our main analysis are presented in Table 6. The coefficients of our treatment variable are plotted in Figure 1. Recall that we argued state-win has a positive effect on firms' perception of domestic institutions (H1a) and state-loss has a negative effect (H1b). Since our dependent variables are reversely coded (*Courts severe obstacle, Licensing severe obstacle and Tax admin severe obstacle*), we expect the coefficients of *Post win* and *Post loss* to be negative and positive respectively. Neutral rulings do not affect firms' perception of investment climate (H1c), we expect the coefficients of *Post Neutral* to be insignificant.

Models 1-3 of Table 6 report results of regression analysis with the dependent variable as *Courts severe obstacle*, Models 4-6 *Licensing severe obstacle*, and Models 7-9 *Tax admin severe obstacle*. Examining the win sample first, we find the coefficient of *Post win* significant in Model 1, 4, and 7. In Model 1, the coefficient of effect of *Post win* is negative ( $\beta = -0.026$ ,  $p = 0.002$ ). On average, being in the treatment group (*Post win* = 1) decreases the probability of assessing courts as a severe obstacle by 0.026 compared to being in the control group (*Post win* = 0). In other words, the probability of a firm assessing courts as a severe obstacle decreases by 2.6 percentage points. Similarly, in Model 4, we find the coefficient of *Post win* is also negative ( $\beta = -0.019$ ,  $p = 0.046$ ). We interpret the probability of a firm assessing licensing as a severe obstacle

decreases by 1.9 percentage points if a state losses litigation. However, the coefficient of *Post win* in Model 7 is positive, which is the opposite of our expectation ( $\beta = 0.030$ ,  $p = 0.008$ ). This suggests that firms assess tax administration more as a severe obstacle even following a ruling in favor of the state. We are yet to explore the reason behind. Overall, we find partial support for H1a.

In the loss sample, the coefficients of *Post loss* are consistently positive and significant for all three outcome variables. In Model 2, being in the treatment group (*Post loss* = 1) increases the probability of assessing courts as severe obstacle by 6.5 percentage points compared to being in the control group (*Post loss* = 0). In Model 5, the probability of a firm assessing licensing as more challenging increases by 5.8 percentage points. Similarly, in Model 8, the probability of a firm assessing tax administration as a severe obstacle increases by 5 percentage points. Thus, we find support for H1b.

Recall that firms evaluate tax administration as more of a severe obstacle even following a ruling in favor of the state. It seems that tax administration is an outlying aspect of investment climate. We are unable to discover the reason but one potential explanation could be due to firms' relatively frequent interaction with tax administrators. While firms often need to deliver financial reports to tax administrators periodically, it is rare that firms encounter courts and licensing agencies frequently. So communication with tax administration is more attentive to firms, which leaves them stronger memory even if in only a few occasions communications are not pleasant. As a result, firms' general evaluation of tax administration is more negative compare to other aspects of investment climate. This is supported by our data – 24 per cent of firms consider tax

administration as a severe obstacle, whereas the same figures for licensing and courts are both around 15 per cent.

In the neutral sample (Models 3, 6 and 9), we find that the coefficients of *Post neutral* to be insignificant for all three dependent variables. Neutral rulings do not certify a state's actions, so firms are unable to adjust evaluations of investment climate. This supports H1c.

--- Table 6 & Figure 1---

### **The effect of ISDS filings**

There are two alternative explanations. First, a tribunal ruling raises observer firms' attention to a country's overall policy and regulatory environment, thus affecting their assessment. If this is true, we should neither expect the coefficients of a state win to be consistently negative, nor those of a state loss to be positive. Second, a ruling invokes firms' nationalistic sentiment. Local media reports in a country tend to cover more when its government is sued by foreign firms than when their home-country firms litigate against other governments (Brutger & Strezhnev, 2022). Observer firms may disregard the jurisdiction of an external institution in their home country. If this is true, no matter whether a state wins or losses, firms' perception of the investment climate should be more positive following a ruling. Our results have spoken the opposite to the above explanations. But to furthermore resonate the two concerns, we apply the same methodology to ISDS filings. Since a ruling occurs after a filing, it should be less of a surprise to firms. So a filing against the state should be no less likely than a ruling to raise either observer firms' attention or their nationalistic sentiment. Table 7 presents the results of filings, and there are no consistent and robust results. Therefore this further lends support to our certification story.

### **Additional robustness tests**

We report several robustness tests to examine the sensitivity of our results to time windows, model specifications and variable construction.

*Alternate time windows:* First, we use a shorter pre- and post- event window of observation. Since each round of country surveys was conducted over several months, there may be other changes in the institutional environment of the country. We minimize the likelihood of such idiosyncratic events affecting our results by aggregating across several surveys. Nonetheless, we also report results using firms' responses in shorter windows of time. By comparing responses that were recorded just before and just after the tribunal ruling, we can be more confident of the treatment effect. However, there is a tradeoff as the sample size is significantly smaller. Table A2, A3 and A4 replicate our main findings using windows of 15 days, 30 days, and 45 days for the three subsamples. As in Tables 6, we find the coefficient of *Post win* to be negative and significant for *Courts severe obstacle* and *Licensing severe obstacle*. The results of *Tax admin severe obstacle* are more ambiguous, with the coefficients of *Post win* no longer significant across different windows. We also find results similar to those reported in Table 6 for the loss sample. The coefficient of *Post neutral* is not significant in any of the models, as in our main results.

*Time trend:* Since firms' responses are recorded over several months, we include a survey-specific time trend variable in Table A5. The time trend variable captures the difference in the number of days to/from the date of the ruling. The results including this time trend are similar to our main findings for the win, loss, and neutral samples, with one difference: the coefficient of

*Post win* in the specification with *Tax admin severe obstacle* is no longer significant, although it remains positive.

*Matched sample:* Although there does not appear to be any specific design factor in determining which firms are surveyed early vs late in a given country, there may be consistent differences among respondent firms before and after the treatment. To account for this, we construct a matched sample of firms using propensity score matching. We matched untreated and treated dyads based on observable covariates from our model. The results using the matched sample are similar to our main analysis and presented in Table A6.

*Alternate model specification:* Our unit of analysis is the individual firm's response, which is nested within different survey rounds. The likelihood of assessing courts, licenses, and tax administration as severe obstacles may be more similar for respondents within a country than across countries. In our main specification, we included survey dummies to account for this. We now examine multi-level models, where firm responses are nested in countries. Table A7 in the appendix presents results from a two-level mixed-effects model with random effects at the country level (estimated using mixed in Stata 17). The results are highly consistent with those reported in Tables 6.

*Placebo test:* To ensure that the treatment effect comes from the ruling dates, we choose pseudo dates that are one month prior to the actual ruling dates. The results are presented in Table A8, A9 and A10 with different time windows. Overall, there does not appear to be any consistent pattern among the different specifications. This provides greater confidence in the causal effect of ISDS rulings on firms' perception of domestic institutions.

*Drop foreign firms:* ISDS only allows foreign firms to file litigations against host governments, so tribunal rulings may affect foreign firms more than domestic firms. To make sure the result is not driven by litigant firms or other foreign firms, we remove firms with foreign ownership. This deletes 9 per cent of observations from our sample. And there is no pattern of their distribution among win, loss, and neutral subsamples. The results without foreign firms are shown in Table A11. We observe a highly similar pattern to our main analysis in Table 6.*Drop surveys with filings:* Even though filings do not affect firms' perception of investment climate as we discussed before, to ensure the change in perception is due to tribunal rulings, we exclude surveys where a filing occurred in the meantime. Thus, we remove one survey in which a state won, and two surveys in which a state lost. As shown in Table A12, the results remain consistent.

*Regression discontinuity in time:* To further establish a causal relationship between a tribunal ruling and firms' perception of investment climate, we implement regression discontinuity (Lee & Lemieux, 2010). As the running variable in our setting is time, we follow Hausman and Rapson (2018) to conduct regression discontinuity in time. We plot *Courts/Licensing/Tax admin severe obstacle* against time in Figure A1. The horizontal axis stands for the number of days from the date of a firm response to a ruling date, and Time = 0 is the ruling date. Overall, Time seems to be a continuous and smooth function for *Courts/Licensing/Tax admin severe obstacle* everywhere except on the ruling date where there is a discontinuous jump. This provides evidence that a ruling leads to a change in how firms perceive investment climate.

## **Discussion and Conclusion**

Do international institutions change how firms assess their domestic investment climate? Our study suggests they do. Drawing from the creative quasi-experiment method, we show that a



ruling from an independent international institution certifies whether a state complies with its commitment to a favorable environment, and therefore affects how observer firms perceive the state's investment climate. We find that firms consider investment climate as more challenging if they observe a tribunal ruling in favor of the state while they assess investment climate as less favorable when a ruling is against the state. An application of the same analysis to the filing of litigation against the states confirmed that the power of international institutions does not reside in raising observers' attention or nationalistic sentiment. Instead, it results from the certification effect. Rulings by independent international institutions provide states with legitimacy so that observer firms consider domestic investment climate as desirable, proper and appropriate (Suchman, 1995). Taken together, the findings suggest that a ruling from international institutions act as a legitimating symbol of a country and shape firms' evaluation of its investment climate.

These results expand existing knowledge of how firms perceive institutional environment. Previous studies predominantly focus on a group of factors, such as a firm's previous experience, actions of prominent actors and structural factors in the policy making process (e.g. Fremeth & Shaver, 2014; Guillen, 2002; Holburn & Zelner, 2010), have an impact on firms' beliefs about institutional environment. However, this line of research is constrained to firm- and country-level characteristics, overlooking the role of supranational institutions. This is surprising given their increasing participation in global economic affairs. For example, the World Bank raised over \$157 billion from only April 2020 to the end of 2021 to help developing countries deal with pandemic crisis (The World Bank, 2021). Moreover, international arbitration tribunals have received legal filings by firms against governments for over 1000 cases by 2021 (UNCTAD, 2022). Our findings reveal that investment treaties, as one type of international institutions,

change firms' assessment of a country's investment climate. Moreover, investment treaties not only affect foreign firms who may have access to investor-state arbitration but also domestic firms who are not directly involved.

This study also contributes to the debate on how investment treaties influence firm behavior in political economy literature. Some studies suggest only foreign firms with access to investor-state dispute resolution system are subject to the influence of investment treaties (Elkins et al., 2006; Blake & Moschieri, 2017). In contrast, other studies show even foreign firms that are not protected by a treaty benefit from it (Buthe & Milner, 2009; Kerner, 2009). Yet, our approach is also different from theirs in a significant way; we find due to the certification role both foreign and domestic firms change their expectations of the state's investment climate through investment treaties.

This study extends the extant research on institutional voids. Institutional voids, common in emerging markets, impede market activities and economic development (Doh et al., 2017; Pevrah et al., 2021). While efforts led by both the public and private sectors aim to overcome the challenges for firms operating in such contexts, research has yet to explore how state-led efforts are perceived by firms. By integrating research in strategic management and political economy, we investigate how firms respond to state participation in international institutions.

Our quasi-experiment approach offers a novel way to address exogenous shocks. An ideal experiment to study exogenous shocks is hard to obtain as it requires a counterfactual control group that did not experience the shock. This study takes advantage of duration of the World Bank Enterprise Survey and the tagged date of each firm response, thus we ensure the as-if random assignment to control and treatment groups. We are then able to estimate the causal

effect of the tribunal ruling by comparing survey responses before the ruling date and after the ruling date.

Furthermore, this study also shed lights on implications for policy makers. In the recent years, some countries argue ISDS has become an uneven playing field for multinational companies to claim compensation for legitimate government policies. The nuclear power company Vattenfall asked for \$3.7 billion from Germany over its decision to phase out nuclear energy following Fukushima disaster; the Tobacco giant Philip Morris demanded \$2 million from Uruguay over health warning labels on cigarette packets. In addition, an increasing number of “low-merit” claims cast doubt in the efficacy of ISDS. A few countries, including Bolivia, Ecuador and Venezuela, have decided to withdraw from the International Centre for the Settlement of Investment Disputes, the dominant international convention governing ISDS. While we do not argue that ISDS is a perfectly equal venue, our study shows firms do consider its rulings as a powerful legitimacy signal for a country’s overall institutions. Policy makers may still need to take into account of ISDS when making economic policies.

This study is nonetheless subject to limitations that suggest future inquiry. First, our outcome variable is a perception measure. It is unclear whether an increase in firms’ positive evaluation of investment climate following a ruling in favor of the state will direct them to expand the current business, or a decrease in the evaluation following a ruling against the state will make them divest from the focal country. In this vein, Blake and Moschieri (2017) discover foreign firms that have litigated against a state before international arbitration tribunals tend to divest from the state. Future research could broaden this direction to examine how and whether changes in firms’ perception of domestic investment climate affect their strategic decisions like divestment,

alliances and acquisitions. Second, our outcome variable captures whether a firm assesses domestic investment climate as more challenging, but it is only one attribute of legitimacy. Future research could employ a more straightforward operationalization of legitimacy, like survey questions more directly targeting on legitimacy of domestic investment climate. Third, we have only applied our methodology to address investment climate, but there are other possibilities. Using a similar method, Goldstein et al. (2021) find diplomacy visits increase nationals' favorable perception of the visiting officials; Flammer and Ioannou (2020) uncover the sharp increase in the cost of debt during the 2008 financial crisis led firms to adjust their strategic investments. This relaxes the bar of conventional studies on stock market prices, and opens up to future directions like how firms perceive or react strategically to other exogenous political events.

## Partial References

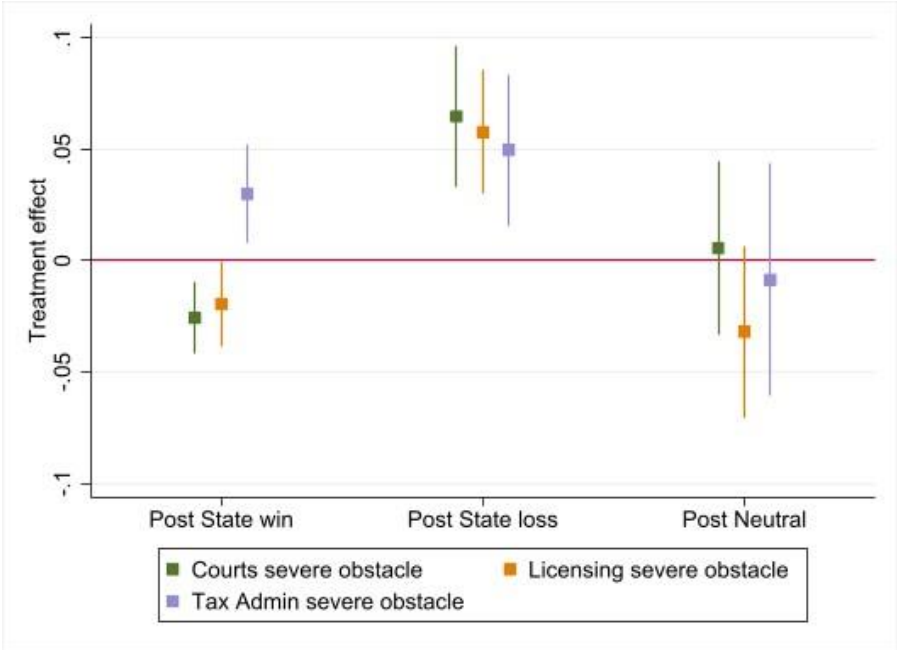
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Figure 1: Treatment effects using the survey respondents interviewed before and after an ISDS ruling in favor of and against the country



Note: Based on all models of Table 6. Vertical bars are 95% confidence intervals.



Table 1: Summary of observations

	Description	# surveys	# observations
1	WB Enterprise Surveys (2006-Oct 2021)	301	174297
2	WBES with ISDS ruling within survey period	28	21663
3	WBES with multiple ISDS rulings in survey period	3	1634
4	WBES with less than 10% of sample before/after ISDS ruling	7	5691
5	WBES with one ISDS ruling and surveys completed before/after ruling (2 - 3 - 4)	18	14338

Table 2: Sample description

State	ISDS ruling	Ruling date	Enterprise Survey Version	Survey start date	Survey end date	Total # responses	# responses before ruling	# responses after ruling	# responses on day of ruling
Albania	State loss	24-Apr-19	Albania2019	22-Dec-18	27-May-19	377	335	40	2
Argentina	State loss	14-Jul-06	Argentina2006	4-Apr-06	27-Sep-06	1,063	625	434	4
Argentina	State loss	21-Jul-17	Argentina2017	1-Jan-17	27-Mar-18	991	471	520	0
Peru	State loss	30-Nov-17	Peru2017	24-Feb-17	19-Mar-18	1,003	795	203	5
Russia	State loss	12-Apr-19	Russia2019	25-Dec-18	19-Jul-19	1,323	465	849	9
Croatia	Neutral	5-Apr-19	Croatia2019	6-Dec-18	8-Nov-19	404	136	267	1
Lithuania	Neutral	17-May-13	Lithuania2013	5-Sep-08	14-Dec-09	276	202	73	1
Romania	Neutral	6-May-13	Romania2013	4-Dec-12	30-Oct-13	540	205	335	0
Cyprus	State win	15-Jan-19	Cyprus2019	26-Nov-18	7-Jun-19	240	65	171	4
Czech Republic	State win	19-Sep-13	Czech Republic2013	9-Jan-13	17-Apr-14	254	83	171	0
Egypt	State win	28-Feb-20	Egypt2020	5-Feb-19	28-Jul-20	3,075	2,645	430	0
Estonia	State win	21-Jun-19	Estonia2019	17-Dec-18	23-Dec-19	360	217	143	0
Kenya	State win	22-Oct-18	Kenya2018	29-May-18	27-Jan-19	1,001	746	252	3
Lithuania	State win	28-Jan-09	Lithuania2009	23-Jan-13	23-Oct-13	270	165	104	1
Mexico	State win	17-Jul-06	Mexico2006	10-Apr-06	29-Sep-06	1,480	1,077	390	13
Panama	State win	24-Nov-10	Panama2010	3-Aug-10	9-Apr-11	365	166	199	0
Venezuela	State win	30-Aug-10	Venezuela2010	28-May-10	24-Sep-11	320	111	208	1
Viet Nam	State win	28-Sep-15	Vietnam2015	11-Nov-14	26-Apr-16	996	693	303	0

Table 3: Descriptive statistics

Variable	Description	N	Mean	SD
Courts severe obstacle	=1 if courts are major or very severe obstacles to current operations of the survey respondent	13,257	0.15	0.36
Licensing severe obstacle	=1 if business licensing and permits are major or very severe obstacles to current operations of the survey respondent	13,784	0.15	0.35
Tax admin severe obstacle	=1 if tax administrations are major or very severe obstacles to current operations of the survey respondent	14,019	0.24	0.43
Post ruling	=1 if survey occurs after ISDS tribunal ruling	14,294	0.36	0.48
Same industry	= 1 if the firm operates in the same industry as the litigant firm filed the ISDS claim	14,338	0.03	0.16
Foreign ownership	=1 if 10% or more of the firm is owned by private individuals, companies, or organizations	14,287	0.09	0.28
Firm sales (log)	Total annual sales of the firm for all products and services in previous fiscal year (log)	13,099	16.61	3.09
Management experience (years)	# years of sector experience of the top manager	14,136	20.21	11.49
Firm innovation	=1 if firm introduced new products or services over the previous 3 years	12,725	0.32	0.47
Mgmt time on govt regulations	Share of senior management time spent in dealing with government regulations	13,498	0.12	0.19
Political instability obstacle	=1 if political instability is a moderate, major, or severe obstacle for the firm's operations	13,854	0.58	0.49

Table 4: Correlation table

Variables	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-	-10-	-11-
(1) Courts severe obstacle	1										
(2) Licensing severe obstacle	0.27	1									
(3) Tax admin severe obstacle	0.31	0.34	1								
(4) Post ruling	0.03	-0.02	0.06	1							
(5) Same industry	-0.04	-0.03	-0.05	0.03	1						
(6) Foreign ownership	0.00	-0.02	-0.02	0.01	-0.02	1					
(7) Firm sales (log)	-0.02	-0.06	-0.09	0.07	0.20	0.17	1				
(8) Management experience (years)	0.03	0.00	0.02	-0.04	-0.06	-0.02	0.00	1			
(9) Firm innovation	0.09	0.02	0.09	-0.01	-0.05	0.10	0.09	0.09	1		
(10) Mgmt time on govt regulations	0.09	0.06	0.10	0.03	-0.05	0.00	-0.02	0.05	0.11	1	
(11) Political instability obstacle	0.24	0.20	0.28	0.00	-0.11	0.02	-0.11	0.09	0.13	0.05	1

Table 5: Comparison of means in the treatment and control groups

	Win sample				Loss sample				Neutral sample			
	Post ruling = 0		Post ruling = 1		Post ruling = 0		Post ruling = 1		Post ruling = 0		Post ruling = 1	
	# Obs.	Mean	# Obs.	Mean	# Obs.	Mean	# Obs.	Mean	# Obs.	Mean	# Obs.	Mean
Courts severe obstacle	5,389	0.10	2,091	0.11	2,600	0.24	1,958	0.25	494	0.10	682	0.12
Licensing severe obstacle	5,803	0.15	2,275	0.13	2,562	0.17	1,931	0.18	487	0.09	685	0.07
Tax admin severe obstacle	5,847	0.17	2,263	0.18	2,664	0.32	2,018	0.35	491	0.29	692	0.28
Post ruling	6,005	0	2,340	1	2,691	0	2,046	1	506	0	706	1
Same industry	6,005	0.03	2,340	0.03	2,691	0.02	2,046	0.04	506	0.00	706	0.00
Foreign ownership	5,993	0.08	2,336	0.11	2,685	0.09	2,038	0.06	490	0.11	701	0.12
Firm sales (log)	5,644	16.56	2,030	17.04	2,375	16.56	1,906	17.11	456	15.01	647	15.61
Management experience (years)	5,947	19.47	2,314	18.55	2,649	23.16	1,978	20.35	504	20.24	700	20.54
Firm innovation	5,310	0.22	1,897	0.28	2,364	0.56	1,912	0.33	500	0.37	705	0.34
Mgmt time on govt regulations	5,743	0.10	2,225	0.12	2,486	0.14	1,886	0.13	465	0.14	651	0.15
Political instability obstacle	5,808	0.52	2,256	0.56	2,628	0.70	1,920	0.64	502	0.55	697	0.52

Table 6: Linear probability models of courts, licensing and tax admin as severe obstacles for the state-win, state-loss and neutral samples

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	DV = Courts severe obstacle			DV = Licensing severe obstacle			DV = Tax admin severe obstacle		
	Win sample	Loss sample	Neutral sample	Win sample	Loss sample	Neutral sample	Win sample	Loss sample	Neutral sample
Post State win	-0.026** (0.008)			-0.019* (0.010)			0.030** (0.011)		
Post State loss		0.065** (0.016)			0.058** (0.014)			0.050** (0.017)	
Post Neutral			0.006 (0.020)			-0.032 (0.020)			-0.009 (0.027)
Firm sales (log)	-0.007** (0.002)	0.002 (0.004)	0.000 (0.005)	0.000 (0.002)	-0.007* (0.003)	-0.003 (0.005)	-0.011** (0.002)	-0.006 (0.004)	-0.015* (0.007)
Management experience (log)	-0.018** (0.007)	0.006 (0.013)	-0.001 (0.018)	-0.009 (0.007)	-0.009 (0.011)	-0.008 (0.016)	-0.017* (0.008)	0.008 (0.013)	0.001 (0.023)
Firm innovation	0.031** (0.010)	-0.033+ (0.018)	0.042+ (0.022)	-0.039** (0.011)	0.062** (0.015)	-0.011 (0.020)	-0.001 (0.012)	-0.003 (0.018)	0.005 (0.027)
Mgmt time on govt regulations	0.066** (0.022)	0.123* (0.049)	0.128+ (0.076)	0.073** (0.026)	0.125** (0.046)	0.065 (0.069)	0.036 (0.026)	0.205** (0.051)	0.200* (0.091)
Political instability obstacle	0.106** (0.007)	0.196** (0.016)	0.120** (0.021)	0.143** (0.009)	0.112** (0.014)	0.034+ (0.018)	0.167** (0.009)	0.232** (0.017)	0.126** (0.026)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.299** (0.044)	0.225** (0.080)	-0.009 (0.113)	0.114* (0.047)	0.158* (0.072)	0.114 (0.102)	0.215** (0.049)	0.145+ (0.085)	0.204 (0.152)
# observations	5732	3307	1008	6203	3278	1002	6235	3378	1009
R-square	0.07	0.11	0.08	0.09	0.06	0.09	0.09	0.18	0.27

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variables are *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax admin Severe Obstacle*. All models use Linear Regression.

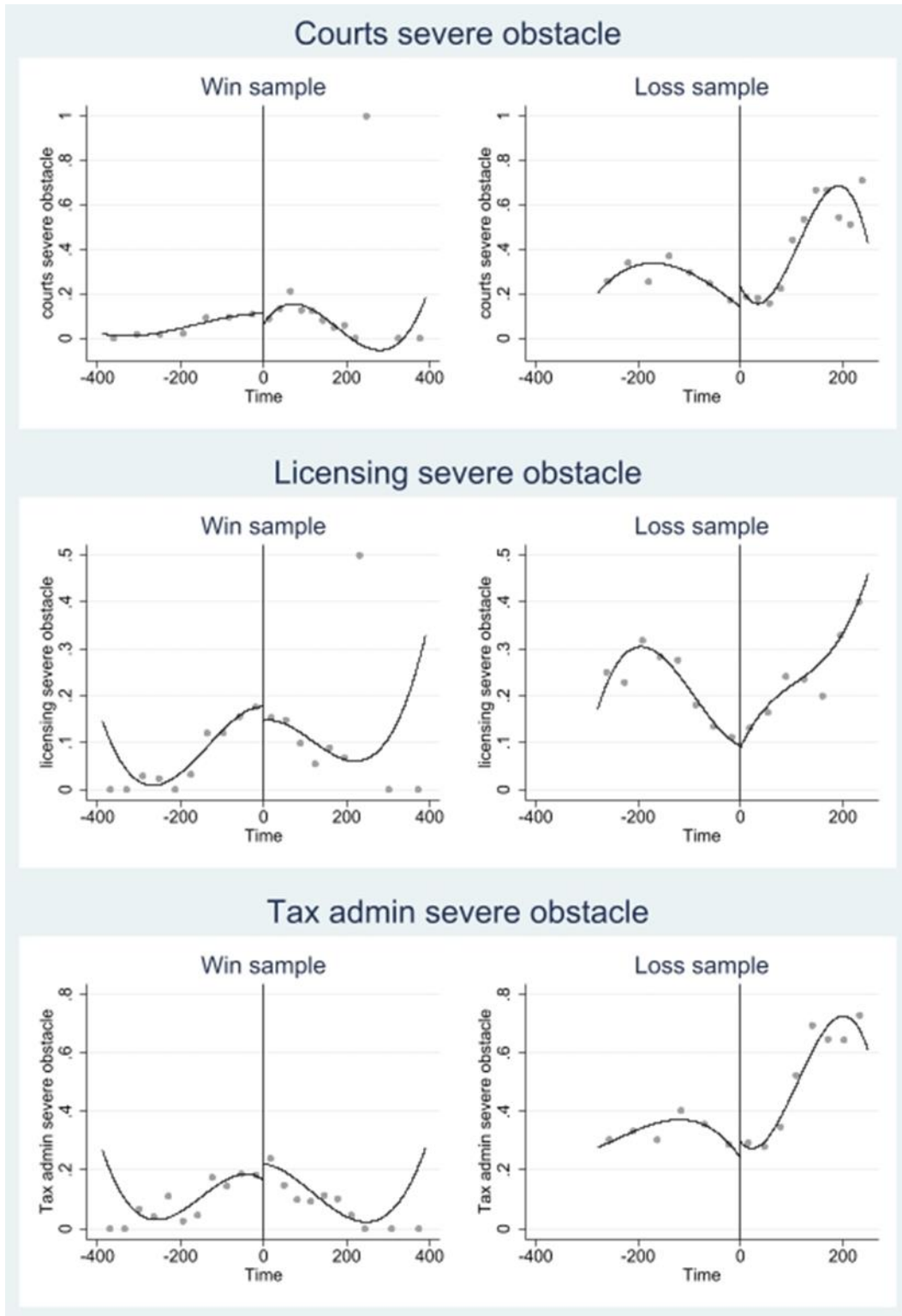
Table 7. Linear probability models of courts, licensing and tax admin as severe obstacles for filing dates

	-1-	-2-	-3-	-4-
	DV = Courts severe obstacle			
	Full sample	Window: 15 days	Window: 30 days	Window: 45 days
Post filing	-0.011 (0.012)	0.027 (0.029)	0.036+ (0.020)	0.010 (0.018)
Controls	Yes	Yes	Yes	Yes
Survey fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
# observations	4969	822	1630	2360
R-square	0.17	0.30	0.26	0.23
	-5-	-6-	-7-	-8-
	DV = Licensing Severe Obstacle			
	Full sample	Window: 15 days	Window: 30 days	Window: 45 days
Post filing	-0.027* (0.011)	-0.016 (0.027)	0.010 (0.018)	-0.011 (0.016)
Controls	Yes	Yes	Yes	Yes
Survey fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
# observations	5335	862	1709	2484
R-square	0.16	0.33	0.31	0.25
	-9-	-10-	-11-	-12
	DV = Tax Admin Severe Obstacle			
	Full sample	Window: 15 days	Window: 30 days	Window: 45 days
Post filing	-0.045** (0.012)	-0.043 (0.031)	-0.022 (0.021)	-0.044* (0.018)
Controls	Yes	Yes	Yes	Yes
Survey fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
# observations	5493	880	1751	2542
R-square	0.14	0.24	0.24	0.21

Notes: Standard errors in parentheses. +  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . The dependent variable is *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax Admin Severe Obstacle*. The treatment variable *Post filing* is whether a firm response was recorded after an ISDS filing. All models use Linear Regression.

**Appendix:**

Figure A1. Regression discontinuity in time plot





Notes: The vertical axis in each sub-figure indicates *Courts/Licensing/Tax amin severe obstacle* respectively. The horizontal axis indicates the number of days from the date of a firm response to the ruling date. Time = 0 is the ruling date. Each dot is an aggregation of firm responses evenly spaced by time.

Table A1: Summary of cases

Country	ISDS ruling	Summary of the dispute
Albania	State loss	In 2015, the Italian energy company Hydro S.r.l. filed a 728 million USD claim against Albania at ICSID. The company had investments in a hydroelectric plant in Kalivaç in southern Albania, a waste management facility, and the TV station Agonset. The legal dispute arose from the Albanian Government's alleged actions to undermine the claimants' investments, including tax audit proceedings, money laundering investigations, seizure and sequestration of bank accounts and assets, and arrest warrants against individual claimants. A final award of 123 million USD was issued in favor of the investor on 24 April 2019.
Argentina (2006)	State loss	In 2001, the US-based water company Azurix filed a legal claim against Argentina for 685 million USD at ICSID. Through a local subsidiary, the firm held a concession agreement for water distribution and sewage treatment services. The claims stemmed from Argentina's alleged interference with the tariff regime applicable to this investment, and other breaches of obligations. On 14 July 2006, the tribunal ruled in favor of the investor, awarding the company 162 million USD.
Argentina (2017)	State loss	In 2009, the Spanish transportation company Teinver filed a claim against Argentina for an astronomical sum of 1590 million USD. The company had investments in in two Argentine airlines. The claim arose out of the Government's alleged re-nationalization and taking of other measures regarding the two Argentine airlines, and subsequent disagreements between the parties as to the remedy due to claimants for the expropriation of their shares in those airlines. On 21 July 2017, a final award was renders in favor of the company, awarding 320 million USD.
Peru	State loss	In 2014, the Canadian mining company Bear Creek Mining filed a 522 million USD against Peru. A concession of the company to operate in a mining project was revoked by the Government of Supreme Decree 032 on the ground that it was no longer in the national interest, resulting in a complete cease of activities alleged significant damages. On 30 November 2017, the tribunal ruled in favor of the company, awarding 18 million USD.
Russia	State loss	In 2015, the Ukrainian vehicle retailer Stabil filed a 47 million USD claim against Russia. Following the 2014 Russian annexation of Crimea, the company's petrol stations in that territory were expropriated. On 12 April 2019, the tribunal ruled in favor of the company, awarding 34 million USD.
Croatia	Neutral	In 2015, the Dutch private equity company Bankcroft Group filed a 53 million Euro (or 57 million USD) claim against Croatia. The claim arose out of the Government's alleged failure to implement measures required by EU law since Croatia's EU accession in 2013 for the liberalization of the country's postal services market, as well as the allegedly anti-competitive market practices of the incumbent Croatian Post. On 5 April 2019, the tribunal ruled in favor of neither party ((liability found but no damages awarded).
Lithuania	Neutral	In 2010, an Italian businessman filed a 207 million EUR (279 million USD)claim against Lithuania. The claim arose out of the Government's annulment of claimant's successful bid for a Lithuanian alcoholic beverage producer. On 17 May 2013, the tribunal decided in favor of neither party (liability found but no damages awarded).
Romania	Neutral	In 2006, a Romanian national, filed a 100 million USD claim against Romania. The claim arose out of investigations undertaken by Romanian anti-corruption and criminal prosecution authorities relating to the privatization of an oil refinery company, shortly after the sale of the controlling shares to the claimant. On 6 May 2013, the tribunal decided in favor of neither party (liability found but no damages awarded).

Cyprus	State win	In 2014, two Lebanon entrepreneurs filed a 500 million USD claim against Cyprus. The claim arose out of the decision by Cyprus' Central Bank to place under administration and sell off two Cypriot branches of a bank owned by the claimants, following accusations that the bank was involved in money laundering operations. On 15 January 2019, the tribunal decided in favor of the state.
Czech Republic	State win	In 2013, the Cyprus company Europa Nova, together with nine solar power investors, jointly filed a single Notice of Arbitration for a multi-party arbitration against Czech Republic. The Claims arose out of amendments to the pre-existing incentive regime for the renewable energy sector, including the introduction of a levy on electricity generated from solar power plants. The focal claim involved 76 million CZK (3 million USD) in damage. On 15 May 2019, the tribunal ruled in favor of the state.
Egypt	State win	In 2016, the US company, owned by a family of Egyptian, filed a 500 million USD against Egypt. The claim arose from disputes related to the cotton industry. On 28 February 2020, the tribunal decide in favor of the state.
Estonia	State win	In 2014, the Dutch utility company United Utilities filed a 65 million EUR (73 million USD) claim against Estonia. Through its local subsidiary, the company held a water services concession. The claim arose out of the alleged refusal by Estonian regulators to permit water tariff increases in Tallinn, which allegedly resulted in substantial losses for the concession. On 21 June 2019, the tribunal decide in favor of the state.
Kenya	State win	In 2015, the UK mining company Cortec Mining filed a 2000 million USD claim against Kenya. The claim arose out of the Government's allegedly unlawful revocation of the company's mining license, following the discovery of new rare earths deposits by the company. On 22 October 2018, the tribunal decide in favor of the state.
Lithuania	State win	In 2007, Kaliningrad, a Russian territory located between Poland and Lithuania, initiated arbitration against Lithuania after a Lithuania-based building owned by the Kaliningrad regional government was seized by order of the Lithuanian courts enforcing a LCIA arbitral award previously rendered against the claimant. On 28 January 2009, the tribunal ruled in favor of the state.
Mexico	State win	In 2002, the US insurance company Fireman's Fund filed a 50 million USD against Mexico. The claim arose out of the Government acting in a discriminatory manner when rescuing foreign and local investors on different terms during a financial crisis. On 17 July 2006, the tribunal decide in favor of the state.
Panama	State win	In 2006, the US energy company Nations Energy filed a 62 million USD claim against Panama. The claim arose out of the communications from Panama's General Revenue Directorate and the Ministry of Economy and Finance that allegedly refused the company the transfer of certain fiscal tax credits to third parties. On 24 November 2010, the tribunal decide in favor of the state.
Venezuela	State win	In 2008, the Canadian power company Nova Scotia filed a 180 million USD claim against Venezuela. The claim arose out of the alleged Government's termination of the company's right to receive up to 1.7 million metric tons of coal at fixed prices from a local coal mine. On 30 August 2010, the tribunal ruled in favor of the state.
Viet Nam	State win	In 2013, the French company RECOFI filed a 66 million USD claim against Viet Nam. In 1987, the company participated in an assistance program that provided food and basic commodities to Viet Nam when the country faced food shortages. The claim resulted from the alleged outstanding payments by the Government. On 28 September 2015, the tribunal decide in favor of the state.

Table A2: Courts as severe obstacles with different time windows of surveys

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	Win Sample			Loss Sample			Neutral Sample		
	Window: 15 days	Window: 30 days	Window: 45 days	Window: 15 days	Window: 30 days	Window: 45 days	Window: 15 days	Window: 30 days	Window: 45 days
Post win	-0.073** (0.020)	-0.043** (0.014)	-0.040** (0.011)						
Post loss				0.047 (0.038)	0.064* (0.025)	0.039+ (0.021)			
Post neutral							-0.015 (0.057)	-0.015 (0.034)	0.009 (0.027)
Firm sales (log)	-0.005 (0.006)	-0.010** (0.004)	-0.010** (0.003)	-0.017+ (0.009)	-0.011 (0.007)	-0.006 (0.005)	-0.000 (0.012)	0.002 (0.009)	-0.002 (0.007)
Management experience (log)	-0.099** (0.021)	-0.065** (0.014)	-0.049** (0.010)	-0.009 (0.034)	-0.014 (0.022)	-0.011 (0.018)	-0.039 (0.039)	0.031 (0.028)	0.020 (0.024)
Firm innovation	-0.003 (0.034)	0.020 (0.021)	0.046** (0.017)	0.018 (0.048)	-0.034 (0.033)	-0.045+ (0.026)	0.161* (0.070)	0.032 (0.042)	0.065+ (0.034)
Mgmt time on govt regulations	-0.020 (0.111)	-0.001 (0.064)	0.062 (0.039)	0.100 (0.119)	0.008 (0.086)	0.023 (0.073)	-0.067 (0.146)	0.034 (0.127)	0.063 (0.099)
Political instability obstacle	0.140** (0.020)	0.114** (0.013)	0.121** (0.010)	0.132** (0.035)	0.145** (0.029)	0.161** (0.023)	0.063 (0.063)	0.154** (0.038)	0.099** (0.029)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.528** (0.124)	0.423** (0.080)	0.376** (0.061)	0.698** (0.192)	0.566** (0.138)	0.487** (0.114)	0.016 (0.234)	-0.123 (0.183)	-0.032 (0.143)
# observations	847	1933	2947	428	920	1394	126	286	447
R-square	0.17	0.09	0.09	0.24	0.14	0.12	0.41	0.19	0.11

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Courts Severe Obstacle*. All models use Linear Regression.

Table A3: Licensing as severe obstacles with different time windows of surveys

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	Win Sample			Loss Sample			Neutral Sample		
	Window: 15 days	Window: 30 days	Window: 45 days	Window: 15 days	Window: 30 days	Window: 45 days	Window: 15 days	Window: 30 days	Window: 45 days
Post win	-0.073** (0.021)	-0.034* (0.016)	-0.040** (0.014)						
Post loss				0.017 (0.030)	0.028 (0.021)	0.044* (0.018)			
Post neutral							-0.047 (0.064)	-0.011 (0.036)	-0.027 (0.028)
Firm sales (log)	0.015* (0.007)	0.008 (0.005)	0.000 (0.004)	-0.004 (0.007)	-0.004 (0.005)	-0.002 (0.004)	-0.010 (0.014)	-0.002 (0.007)	0.003 (0.006)
Management experience (log)	-0.063** (0.021)	-0.045** (0.015)	-0.022+ (0.012)	0.050* (0.021)	0.012 (0.016)	-0.011 (0.015)	-0.046 (0.048)	-0.032 (0.030)	0.003 (0.025)
Firm innovation	-0.076* (0.039)	-0.089** (0.024)	-0.059** (0.020)	0.003 (0.036)	0.011 (0.025)	0.015 (0.021)	0.152* (0.071)	0.025 (0.041)	-0.001 (0.032)
Mgmt time on govt regulations	0.293* (0.131)	0.136+ (0.076)	0.070 (0.051)	0.105 (0.104)	-0.030 (0.070)	-0.018 (0.056)	0.085 (0.268)	0.143 (0.122)	0.154 (0.122)
Political instability obstacle	0.159** (0.023)	0.133** (0.016)	0.142** (0.013)	0.129** (0.025)	0.106** (0.023)	0.105** (0.019)	-0.071 (0.070)	0.012 (0.034)	0.034 (0.028)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.068 (0.121)	0.089 (0.091)	0.133+ (0.072)	-0.063 (0.155)	0.035 (0.112)	0.056 (0.093)	0.255 (0.305)	0.070 (0.158)	-0.107 (0.136)
# observations	907	2075	3175	431	917	1384	124	288	447
R-square	0.17	0.10	0.08	0.14	0.06	0.07	0.35	0.23	0.20

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Licensing Severe Obstacle*. All models use Linear Regression.

Table A4: Tax admin as severe obstacles with different time windows of surveys

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	Win Sample			Loss Sample			Neutral Sample		
	Window: 15 days	Window: 30 days	Window: 45 days	Window: 15 days	Window: 30 days	Window: 45 days	Window: 15 days	Window: 30 days	Window: 45 days
Post win	-0.013 (0.024)	0.042* (0.019)	0.024 (0.016)						
Post loss				0.030 (0.045)	0.038 (0.029)	0.027 (0.024)			
Post neutral							-0.199* (0.079)	0.003 (0.054)	0.006 (0.042)
Firm sales (log)	0.001 (0.006)	-0.007 (0.005)	-0.013** (0.004)	-0.016 (0.011)	-0.012 (0.008)	-0.009 (0.006)	0.001 (0.020)	-0.004 (0.015)	-0.009 (0.011)
Management experience (log)	-0.106** (0.026)	-0.052** (0.017)	-0.040** (0.013)	0.036 (0.036)	0.037 (0.023)	0.012 (0.019)	-0.120 (0.080)	0.023 (0.050)	0.015 (0.039)
Firm innovation	-0.045 (0.041)	-0.011 (0.028)	-0.018 (0.022)	-0.059 (0.052)	-0.042 (0.036)	-0.034 (0.028)	0.036 (0.091)	0.087 (0.058)	0.035 (0.043)
Mgmt time on govt regulations	0.184 (0.127)	-0.005 (0.079)	0.018 (0.055)	0.303* (0.152)	0.057 (0.098)	0.149+ (0.077)	0.232 (0.252)	0.350* (0.174)	0.380** (0.132)
Political instability obstacle	0.175** (0.023)	0.181** (0.017)	0.203** (0.014)	0.224** (0.045)	0.223** (0.032)	0.239** (0.026)	0.082 (0.113)	0.150* (0.059)	0.152** (0.043)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.442** (0.135)	0.235* (0.096)	0.325** (0.076)	0.400+ (0.240)	0.245 (0.160)	0.216+ (0.126)	0.480 (0.531)	0.004 (0.324)	0.024 (0.236)
# observations	912	2079	3170	442	947	1432	127	290	447
R-square	0.15	0.12	0.10	0.16	0.16	0.19	0.41	0.25	0.26

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Tax Admin Severe Obstacle*. All models use Linear Regression.

Table A5: Include a time trend for date of survey response

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	DV = Courts obstacle			DV = Licensing obstacle			DV = Tax Admin obstacle		
	Win sample	Loss sample	Neutral sample	Win sample	Loss sample	Neutral sample	Win sample	Loss sample	Neutral sample
Post State win	-0.048** (0.011)			-0.053** (0.014)			0.030+ (0.016)		
Post State loss		0.040+ (0.022)			0.059** (0.019)			0.036 (0.024)	
Post Neutral			0.030 (0.032)			-0.028 (0.028)			0.007 (0.042)
Firm sales (log)	-0.008** (0.002)	0.002 (0.004)	0.000 (0.005)	-0.000 (0.002)	-0.007* (0.003)	-0.003 (0.005)	-0.011** (0.002)	-0.005 (0.004)	-0.015* (0.007)
Management experience (log)	-0.017** (0.007)	0.007 (0.013)	-0.002 (0.018)	-0.008 (0.007)	-0.009 (0.011)	-0.008 (0.016)	-0.017* (0.008)	0.009 (0.013)	0.000 (0.023)
Firm innovation	0.033** (0.010)	-0.032+ (0.018)	0.042+ (0.022)	-0.037** (0.011)	0.061** (0.016)	-0.011 (0.020)	-0.001 (0.012)	-0.002 (0.018)	0.005 (0.027)
Mgmt time on govt regulations	0.068** (0.022)	0.124* (0.049)	0.130+ (0.076)	0.076** (0.026)	0.125** (0.046)	0.065 (0.069)	0.036 (0.026)	0.206** (0.052)	0.201* (0.092)
Political instability obstacle	0.106** (0.007)	0.195** (0.016)	0.121** (0.021)	0.143** (0.009)	0.112** (0.015)	0.035+ (0.018)	0.167** (0.009)	0.231** (0.017)	0.126** (0.026)
Time trend	0.000** (0.000)	0.000 (0.000)	-0.000 (0.000)	0.000** (0.000)	-0.000 (0.000)	-0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.310** (0.045)	0.231** (0.080)	-0.013 (0.113)	0.132** (0.047)	0.157* (0.073)	0.113 (0.102)	0.215** (0.050)	0.148+ (0.086)	0.201 (0.152)
# observations	5731	3307	1008	6202	3278	1002	6234	3378	1009
R-square	0.07	0.12	0.08	0.09	0.06	0.09	0.09	0.18	0.27

Notes: Standard errors in parentheses. +  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . The dependent variable is *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax Admin Severe Obstacle*. All models use Linear Regression and include a survey-specific time trend which captures the difference in the number of days to/from the date of the ruling.



Table A6: Propensity score matching

	-1-	-2-	-3-	-4-	-5-	-6-
	DV = Courts obstacle		DV = Licensing obstacle		DV = Tax admin obstacle	
	Win sample	Loss sample	Win sample	Loss sample	Win sample	Loss sample
Post State win	-0.024*		-0.004		0.023+	
	(0.010)		(0.011)		(0.013)	
Post State loss		0.080**		0.074**		0.051**
		(0.015)		(0.013)		(0.016)
Firm sales (log)	-0.003	0.001	0.000	-0.007*	-0.007*	-0.008+
	(0.003)	(0.004)	(0.003)	(0.003)	(0.003)	(0.004)
Management experience (log)	-0.024**	-0.024+	-0.005	-0.022*	-0.018+	0.030*
	(0.009)	(0.012)	(0.009)	(0.011)	(0.011)	(0.012)
Firm innovation	0.056**	0.005	-0.056**	0.037*	-0.008	0.001
	(0.013)	(0.018)	(0.013)	(0.017)	(0.016)	(0.020)
Mgmt time on govt regulations	0.033	0.170**	0.130*	0.037	0.062	0.238**
	(0.048)	(0.056)	(0.051)	(0.052)	(0.052)	(0.058)
Political instability obstacle	0.086**	0.165**	0.118**	0.091**	0.171**	0.216**
	(0.011)	(0.017)	(0.011)	(0.015)	(0.014)	(0.020)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.217**	0.344**	0.069	0.160*	0.137*	0.136
	(0.054)	(0.091)	(0.058)	(0.072)	(0.065)	(0.098)
# observations	2910	2942	3156	2890	3186	3014
R-square	0.14	0.14	0.11	0.08	0.13	0.20

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax Admin Severe Obstacle*. Samples generated based on Propensity Score Matching. All models use Linear Regression.

Table A7: Multilevel mixed effects linear probability models

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	DV = Courts severe obstacle			DV = Licensing severe obstacle			DV = Tax Admin severe obstacle		
	Win	Loss	Neutral	Win	Loss	Neutral	Win	Loss	Neutral
	Sample	Sample	Sample	Sample	Sample	Sample	Sample	Sample	Sample
Post State win	-0.024**			-0.020+			0.029*		
	(0.009)			(0.010)			(0.011)		
Post State loss		0.061**			0.056**			0.049**	
		(0.016)			(0.015)			(0.017)	
Post Neutral			0.009			-0.031+			-0.008
			(0.020)			(0.018)			(0.026)
Firm sales(log)	-0.007**	0.008*	0.005	-0.001	-0.005	-0.004	-0.010**	-0.001	-0.016*
	(0.002)	(0.004)	(0.005)	(0.002)	(0.003)	(0.005)	(0.002)	(0.004)	(0.007)
Management experience(log)	-0.018**	0.007	0.007	-0.008	-0.008	-0.007	-0.017*	0.009	0.000
	(0.006)	(0.013)	(0.017)	(0.007)	(0.011)	(0.015)	(0.008)	(0.013)	(0.022)
Firm innovation	0.031**	-0.050**	0.041*	-0.039**	0.055**	-0.010	-0.001	-0.016	0.006
	(0.010)	(0.017)	(0.021)	(0.011)	(0.015)	(0.019)	(0.012)	(0.017)	(0.027)
Mgmt time on govt regulations	0.071**	0.152**	0.146*	0.076**	0.141**	0.069	0.033	0.235**	0.200*
	(0.020)	(0.047)	(0.061)	(0.024)	(0.042)	(0.056)	(0.026)	(0.048)	(0.079)
Political instability obstacle	0.107**	0.202**	0.114**	0.145**	0.115**	0.037*	0.168**	0.236**	0.128**
	(0.008)	(0.018)	(0.020)	(0.009)	(0.016)	(0.018)	(0.010)	(0.018)	(0.026)
Survey fixed effects	No	No	No	No	No	No	No	No	No
Random effects	Country	Country	Country	Country	Country	Country	Country	Country	Country
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.261**	-0.019	-0.144	0.106*	0.144*	0.151	0.262**	0.125	0.390*
	-0.04	-0.086	-0.094	(0.042)	(0.067)	(0.096)	(0.048)	(0.090)	(0.159)
#observations	5732	3307	1008	6203	3278	1002	6235	3378	1009
Chi2	296.2	197.07	82.56	357.71	136.47	55.66	368.91	234.46	70.28
AIC	1660.92	3695.89	519	4098.38	2958.43	315.01	5105.44	4063.24	1034.13

Notes: Standard errors in parentheses. +  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . The dependent variable is *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax Admin Severe Obstacle*. All models use two-level mixed-effects model with random effects at the country level.

Table A8: Placebo tests using pseudo dates with different time windows of surveys (DV = Courts severe obstacle)

DV = Courts severe obstacle	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	Win Sample			Loss Sample			Neutral Sample		
	Full sample	15 days	30 days	Full sample	15 days	30 days	Full sample	15 days	30 days
Placebo post win	-0.009 (0.008)	-0.009 (0.016)	0.002 (0.012)						
Placebo post loss				0.034+ (0.018)	0.007 (0.041)	-0.032 (0.030)			
Placebo post neutral							0.007 (0.023)	0.026 (0.041)	0.018 (0.033)
Firm sales (log)	-0.008** (0.002)	-0.020** (0.004)	-0.016** (0.003)	0.002 (0.004)	-0.005 (0.010)	-0.005 (0.007)	0.000 (0.005)	-0.004 (0.012)	-0.007 (0.008)
Management experience (log)	-0.019** (0.007)	-0.036** (0.013)	-0.038** (0.010)	0.005 (0.013)	0.031 (0.032)	0.020 (0.024)	-0.000 (0.017)	0.025 (0.043)	0.015 (0.033)
Firm innovation	0.031** (0.010)	0.050* (0.025)	0.029 (0.018)	-0.038* (0.018)	-0.027 (0.043)	-0.004 (0.031)	0.043+ (0.022)	0.041 (0.060)	0.073 (0.047)
Mgmt time on govt regulations	0.067** (0.022)	0.086+ (0.046)	0.085** (0.032)	0.116* (0.049)	0.045 (0.123)	0.033 (0.085)	0.135+ (0.077)	0.197 (0.184)	0.137 (0.139)
Firm obstacle: political instability	0.108** (0.007)	0.124** (0.014)	0.127** (0.011)	0.197** (0.016)	0.144** (0.041)	0.198** (0.030)	0.122** (0.021)	0.089* (0.038)	0.132** (0.035)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.289** (0.043)	0.561** (0.098)	0.457** (0.068)	0.220** (0.081)	0.242 (0.206)	0.309* (0.144)	-0.016 (0.113)	-0.060 (0.238)	0.009 (0.184)
# observations	5690	1545	2638	3293	452	851	1005	208	321
R-square	0.07	0.11	0.10	0.11	0.13	0.11	0.08	0.18	0.19

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Courts Severe Obstacle*. All models use Linear Regression and pseudo dates that are one month before the actual ruling dates.

Table A9: Placebo tests using pseudo dates with different time windows of surveys (DV = Licensing severe obstacle)

DV = Licensing severe obstacle	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	Win Sample			Loss Sample			Neutral Sample		
	Full sample	15 days	30 days	Full sample	15 days	30 days	Full sample	15 days	30 days
Placebo post win	0.001 (0.009)	-0.020 (0.020)	-0.004 (0.015)						
Placebo post loss				0.007 (0.015)	0.013 (0.032)	-0.007 (0.023)			
Placebo post neutral							-0.015 (0.023)	-0.049 (0.045)	0.013 (0.036)
Firm sales (log)	-0.000 (0.002)	-0.012* (0.006)	-0.003 (0.004)	-0.007* (0.003)	0.002 (0.008)	0.002 (0.005)	-0.004 (0.005)	0.007 (0.010)	0.001 (0.007)
Management experience (log)	-0.009 (0.007)	-0.004 (0.016)	-0.009 (0.012)	-0.012 (0.011)	-0.015 (0.027)	-0.023 (0.019)	-0.007 (0.016)	0.010 (0.042)	0.001 (0.030)
Firm innovation	-0.040** (0.011)	-0.037 (0.032)	-0.075** (0.022)	0.052** (0.016)	0.066+ (0.035)	0.073** (0.024)	-0.012 (0.020)	-0.017 (0.047)	0.053 (0.042)
Mgmt time on govt regulations	0.076** (0.026)	-0.017 (0.059)	0.054 (0.038)	0.120** (0.046)	0.128 (0.088)	0.069 (0.064)	0.040 (0.065)	0.008 (0.148)	-0.032 (0.118)
Firm obstacle: political instability	0.143** (0.009)	0.121** (0.019)	0.159** (0.014)	0.113** (0.015)	0.055+ (0.032)	0.079** (0.022)	0.031+ (0.018)	0.013 (0.040)	0.005 (0.035)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.109* (0.047)	0.256* (0.108)	0.162* (0.081)	0.170* (0.073)	-0.004 (0.146)	0.046 (0.109)	0.113 (0.102)	-0.212 (0.206)	0.000 (0.182)
# observations	6158	1665	2830	3265	452	845	998	207	317
R-square	0.08	0.08	0.09	0.06	0.13	0.09	0.09	0.20	0.16

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Licensing Severe Obstacle*. All models use Linear Regression and pseudo dates that are one month before the actual ruling dates.

Table A10: Placebo tests using pseudo dates with different time windows of surveys (DV = Tax admin severe obstacle)

DV = Tax admin severe obstacle	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	Win Sample			Loss Sample			Neutral Sample		
	Full sample	15 days	30 days	Full sample	15 days	30 days	Full sample	15 days	30 days
Placebo post win	0.013 (0.010)	-0.035+ (0.021)	-0.022 (0.015)						
Placebo post loss				0.023 (0.019)	-0.004 (0.045)	-0.019 (0.032)			
Placebo post neutral							0.014 (0.030)	0.028 (0.061)	0.041 (0.048)
Firm sales (log)	-0.010** (0.002)	-0.026** (0.006)	-0.018** (0.004)	-0.006 (0.004)	-0.025* (0.011)	-0.012 (0.008)	-0.016* (0.007)	-0.019 (0.014)	-0.017 (0.011)
Management experience (log)	-0.016* (0.008)	-0.019 (0.017)	-0.027* (0.013)	0.008 (0.013)	0.022 (0.035)	0.013 (0.024)	0.004 (0.023)	0.054 (0.063)	0.007 (0.050)
Firm innovation	-0.002 (0.012)	-0.055+ (0.030)	-0.034 (0.022)	-0.004 (0.018)	0.062 (0.048)	0.048 (0.034)	0.004 (0.027)	-0.001 (0.066)	-0.018 (0.051)
Mgmt time on govt regulations	0.036 (0.026)	0.091 (0.071)	0.043 (0.038)	0.204** (0.052)	0.095 (0.117)	0.148 (0.091)	0.209* (0.093)	0.687** (0.164)	0.408** (0.148)
Firm obstacle: political instability	0.168** (0.009)	0.181** (0.019)	0.184** (0.014)	0.232** (0.017)	0.192** (0.046)	0.211** (0.034)	0.125** (0.026)	0.265** (0.059)	0.223** (0.048)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.225** (0.049)	0.488** (0.112)	0.390** (0.081)	0.146+ (0.086)	0.430* (0.219)	0.301+ (0.159)	0.194 (0.151)	0.088 (0.287)	0.322 (0.256)
# observations	6192	1660	2832	3365	464	868	1006	209	322
R-square	0.09	0.11	0.09	0.18	0.26	0.17	0.27	0.35	0.29

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Tax Admin Severe Obstacle*. All models use Linear Regression and pseudo dates that are one month before the actual ruling dates.

Table A11. Remove firms with any foreign ownership

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	DV = Courts severe obstacle			DV = Licensing severe obstacle			DV = Tax admin severe obstacle		
	Win sample	Loss sample	Neutral sample	Win sample	Loss sample	Neutral sample	Win sample	Loss sample	Neutral sample
Post State win	-0.030** (0.009)			-0.024* (0.010)			0.025* (0.012)		
Post State loss		0.067** (0.017)			0.064** (0.015)			0.058** (0.018)	
Post Neutral			0.007 (0.021)			-0.038+ (0.021)			-0.004 (0.029)
Firm sales (log)	-0.008** (0.002)	0.003 (0.004)	-0.003 (0.006)	0.001 (0.002)	-0.008* (0.004)	-0.002 (0.005)	-0.010** (0.003)	-0.007 (0.004)	-0.011 (0.008)
Management experience (log)	-0.020** (0.007)	0.008 (0.013)	0.001 (0.018)	-0.004 (0.007)	-0.008 (0.012)	-0.012 (0.018)	-0.018* (0.008)	0.005 (0.014)	-0.003 (0.026)
Firm innovation	0.031** (0.011)	-0.036* (0.018)	0.039 (0.024)	-0.038** (0.012)	0.058** (0.016)	-0.010 (0.021)	-0.008 (0.013)	-0.005 (0.019)	0.005 (0.030)
Mgmt time on govt regulations	0.058** (0.022)	0.090+ (0.050)	0.139+ (0.083)	0.072** (0.027)	0.123** (0.047)	0.071 (0.075)	0.027 (0.027)	0.191** (0.053)	0.282** (0.093)
Political instability obstacle	0.110** (0.008)	0.196** (0.017)	0.120** (0.021)	0.148** (0.009)	0.111** (0.015)	0.040* (0.019)	0.169** (0.010)	0.230** (0.018)	0.117** (0.029)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.326** (0.046)	0.208* (0.085)	0.045 (0.118)	0.096+ (0.049)	0.185* (0.077)	0.124 (0.112)	0.224** (0.052)	0.186* (0.090)	0.138 (0.170)
# observations	5236	3057	874	5675	3026	866	5698	3122	875
R-square	0.07	0.12	0.09	0.09	0.06	0.11	0.09	0.19	0.28

Notes: Standard errors in parentheses. +  $p < 0.1$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ . The dependent variable is *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax Admin Severe Obstacle*. We remove observations where a firm has any share of foreign ownership. All models use Linear Regression.

Table A12. Remove surveys in which a filing occurred

	-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-
	DV = Courts severe obstacle			DV = Licensing Severe Obstacle			DV = Tax Admin Severe Obstacle		
	Win	Loss	Neutral	Win	Loss	Neutral	Win	Loss	Neutral
	sample	sample	sample	sample	sample	sample	sample	sample	sample
Post State win	-0.025** (0.008)			-0.021* (0.010)			0.029* (0.011)		
Post State loss		0.011 (0.020)			0.084** (0.016)			0.008 (0.022)	
Post Neutral			0.006 (0.020)			-0.032 (0.020)			-0.009 (0.027)
Firm sales (log)	-0.008** (0.002)	-0.001 (0.005)	0.000 (0.005)	0.000 (0.002)	-0.017** (0.004)	-0.003 (0.005)	-0.012** (0.002)	-0.011* (0.005)	-0.015* (0.007)
Management experience (log)	-0.018** (0.007)	0.008 (0.015)	-0.001 (0.018)	-0.009 (0.007)	-0.010 (0.013)	-0.008 (0.016)	-0.015+ (0.008)	0.027 (0.017)	0.001 (0.023)
Firm innovation	0.024* (0.010)	-0.029 (0.025)	0.042+ (0.022)	-0.042** (0.011)	0.065** (0.020)	-0.011 (0.020)	-0.001 (0.012)	-0.022 (0.026)	0.005 (0.027)
Mgmt time on govt regulations	0.064** (0.022)	0.028 (0.071)	0.128+ (0.076)	0.070** (0.026)	0.044 (0.062)	0.065 (0.069)	0.039 (0.027)	0.185* (0.074)	0.200* (0.091)
Political instability obstacle	0.105** (0.007)	0.168** (0.021)	0.120** (0.021)	0.142** (0.009)	0.091** (0.018)	0.034+ (0.018)	0.166** (0.009)	0.217** (0.023)	0.126** (0.026)
Survey fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.309** (0.044)	0.272** (0.100)	-0.009 (0.113)	0.119* (0.047)	0.382** (0.086)	0.114 (0.102)	0.225** (0.050)	0.159 (0.107)	0.204 (0.152)
# observations	5670	1736	1008	6141	1698	1002	6173	1777	1009
R-square	0.06	0.12	0.08	0.08	0.06	0.09	0.09	0.16	0.27

Notes: Standard errors in parentheses. + p<0.1, \* p<0.05, \*\* p<0.01. The dependent variable is *Courts Severe Obstacle*, *Licensing Severe Obstacle* and *Tax Admin Severe Obstacle*. All models use Linear Regression. We remove one survey (Venezuela2010) in the state-win sample and two surveys (Argentina2017 and Peru2017) in the loss sample where an ISDS filing occurred in the meantime.