Business Under Fire: Violent Conflict and Entrepreneurship

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What can we learned from micro-level studies of entrepreneurs in conflict countries?

How can they manage risks associated with the conflict?
This Presentation

- How business firms in conflict countries can manage risks associated with violent conflict.
- Eight lessons are explained:
  1. Understand the impact of conflict on entrepreneurship.
  2. Simplify business processes and products and diversify supply chains.
  3. Investments in human capital and technological upgrading vital after conflict.
  4. Keep it in the family.
  5. Empower women.
  6. Prioritize business survival.
  7. Note geographical differentiation; and
  8. Deal with vested Interests and barriers to entry.
Lesson 1: Understand the impact of conflict on entrepreneurship

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<tr>
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<th>Positive Impact</th>
<th>Negative Impact</th>
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<tr>
<td><strong>Start-ups</strong></td>
<td>Increase in rate of new firms</td>
<td>More necessity firms</td>
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<td>Regional opportunities</td>
<td>More informal firms</td>
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<td>New opportunities related to safety and security</td>
<td>“Wrong” sector</td>
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<td><strong>Firm growth</strong></td>
<td>Potential short-term benefits for connected or protected firms</td>
<td>Reduction in growth</td>
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<td>Smaller average firms</td>
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<td>Regressive “innovation”</td>
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<td>Gangsterism</td>
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<td><strong>Internationalization</strong></td>
<td>Diaspora networks</td>
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<td>International aid</td>
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<td>Emigration</td>
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<td>Flight of firms</td>
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<td>Smuggling</td>
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<td><strong>Disposal/transfer</strong></td>
<td>More women-owned firms</td>
<td>Reduced ability to sell firm</td>
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<td>Family business prominence</td>
<td>More difficulties for women entrepreneurs</td>
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<td>Family business stagnation</td>
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<td><strong>Firm exit</strong></td>
<td>Higher serial and portfolio entrepreneurship</td>
<td>Higher firm failure rate</td>
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Lesson 2: Simplify Business Processes and Products and Diversify Supply Chains

• This implies good management skills!
• Good managers/entrepreneurs find ways to produce the same good or service but using locally rather than globally sourced inputs, and to
• Shift their sources cleverly around the frontier of conflict-affected areas.
• Social networks, experience, access and use of information, forward planning and management capabilities of entrepreneurs are important factors contributing to the survival of firms during violent conflict.
Lesson 3: Investments in Human Capital and Technological Upgrading

- For post-conflict reconstruction it should however be kept in mind that the ‘innovative’ adjustments discussed in the previous slide can come with a longer-term cost:
- Paul Collier and Marguerite Duponchel described this in their JCR paper as "forgetting by not doing".
- Firm-level productivity can depressed in conflict regions long after hostilities cease – see e.g. Nagler and Naudé (2014)
- Development of management skills and investment in human capital and technological upgrading are thus important bulwarks before and after conflict.

Firm productivity is much lower in Uganda’s Northern region in 2012 than any other region Source: Nagler and Naudé, 2014
Lesson 4: Keep it in the Family

- Keeping business in the family is often a smart recourse for firms planning on surviving the war.
- Within such firms issues of trust, uncertainty and investment are dealt with in ways that internalize conflict-risks.
- After the war, there may however be limitations in terms of the growth and productivity of family firms (risk-avoidance / self-insurance).
Lesson 5: Empower Women

- Family firms get hamstrung when women face discrimination in markets and society, as women tend to take over the reins in many (family) firms during periods of civil war.
- And afterwards when more are widowed.
- Women often are even more constrained in terms of the type of business they can start.
- Empowerment of women, boosting of female entrepreneurship and understanding family business better could thus be potent instruments to manage the risk of conflict and facilitate firm survival and recovery.
Lesson 6: Prioritize Survival

- There is a body of research that confirms a ‘phoenix’ effect, of firms that have managed to survive experiencing a rebound after peace is established.
- One of the needs of post-conflict reconstruction is to establish economic gains and economic growth so as to absorb demobilized combatants, and reduce any possible grievances from leading to a resumption of hostilities.
- The fragility of peace agreements is well known.
Lesson 7: Geographical Differentiation

- Sometimes, in contrast to suffering entrepreneurs in rural or intensely affected areas of a country, those in urban areas are not affected directly by conflict.
- As destination of internally displaced people, increasing opportunities for profitable business may result.
- Hence steps to ease business conditions and reducing the obstacles in business formation may be useful to support entrepreneurs making use of such opportunities.
Lesson 8: Deal with Vested Interests and Barriers to Entry

- Often business interests built up during the war continue to dominate and crowd-out competition after the war.
- Costs of doing business often rise AFTER war.
Further Reading

THE JOURNAL OF CONFLICT RESOLUTION

Journal of the Peace Science Society (International)
Volume 57 ▪ Number 1 ▪ February 2013

Special Issue: Entrepreneurship and Conflict
Tilman Bröck, Wim Naude, and Philip Vervimp

Business under Fire: Entrepreneurship and Violent Conflict in Developing Countries
Sameeksha Desai, Zoltan J. Acs, and Ulz Windsel

A Model of Destructive Entrepreneurship: Insight for Conflict and Postconflict Recovery
M. Sanders and U. Windsel

Misallocation of Entrepreneurial Talent in Postconflict Environments
Paul Coller and Marguerite Dupanchel

The Economic Legacy of Civil War: Firm-level Evidence from Sierra Leone
Adriano Camacho and Catherine Rodriguez

Firm Exit and Armed Conflict in Colombia
Carlos Bazzoli, Tilman Bröck, and Nina Wald

Selfemployment and Conflict in Colombia
Prakash Singh

Impact of Terrorism on Investment Decisions of Farmers: Evidence from the Punjab Insurgency

Policy Brief

Number 4, 2013

Overview
Although the impacts of violent conflict on investment, production, incomes, and inequality have been extensively studied in an aggregate level, comparatively less is known about the micro-level impacts of such conflict at the micro level. Understanding such impacts can improve policies to mitigate the human and financial costs of violent conflict in developing countries. This policy brief discusses lessons from recent studies to address this gap.

Business and the Barrel of a Gun: Understanding Entrepreneurship and Violent Conflict in Developing Countries

The relationship between conflict and entrepreneurship, and small business in particular, is not well understood in the scientific literature. This is due, among others, to the assumption of peace in most theoretical models, the absence of suitable theories in economics about the causes and consequences of conflict, the difficulty of collecting data in conflict-afflicted areas, the dominance of macro-level approaches in political science, and the disproportionate concern in the aid community for the impact of violent conflict on multinational enterprises.

Furthermore, conflicts most often occur at a chronic level. The effects of conflict on entrepreneurship, small businesses, and economic development should be recognized, not only in conflict-afflicted areas, but also in the regions around them. The UNU-WIDER project "Promoting Entrepreneurial Capacity" addresses this gap. Its findings were recently published in two special issues. The analyses contained in these issues are both empirical and theoretical, and cover a diverse range of affected countries from Africa, the Middle East, Asia and Latin America. In this policy brief, we set out the main concepts, share lessons and draw out the implications for policy.
Read even more

- Bombs and Business: How can Entrepreneurs in Fragile States Manage the Risks of Conflict?, [Click here](#)
- Entrepreneurship and Violent Conflict in Developing Countries, [click here](#)
- Innovation and Entrepreneurship in Developing Countries, [click here](#)
- Entrepreneurship, developing countries, and development economics: new approaches and insights, [click here](#)