

## War Destroys Business: A Reality Check<sup>1</sup>

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### Abstract:

*The study takes on economic aspects of war. Exploring the literature in search of finding any systematic explanation of war and business complexity we found no comprehensive evidence. The study did not have geographical or time barriers in terms of event occurrence though selected literature comes recent and quality publications. Since literature does not provide any mechanism to understand complex and dynamic relationship between war and business, this study proposes a framework to understand these dynamics and invites attention of the scholars to invest time and energy in analyzing the proposed framework for studying different aspects of the war and business relationship. Realizing the complex and dynamic nature of the variables, we assume that every unique combination would have a different outcome. An empirical investigation based on the proposed framework would add to its refinement.*

### Introduction

Despite the all known devastation of wars, human history is plagued with this menace. Humans, factions, and nations go to war anticipating an outcome favourable to their interest. Military and political scholars have contributed a rich flow of words on political, ideological, religious, constitutional, and military consequences of war; business on the other hand has been less successful to draw much attention in retrospect. A call for thorough investigation into impacts of war on business and vice versa is, therefore, apparent. Whereas war is largely accepted as an influencing factor on state-making, its effects on economy (taxation and relative factors) still need further research (Kiser & Linton, 2001). We observe Columbian conflicts questioning the integral component of the early political economy of war suggesting that all non-state armed groups cannot be assumed identical in strategy (Sanin,

2008). Researchers are also questioning if the African states are going back to early European methods of state building after getting over the cold war and increased worldwide awareness of old economic motives for war (Reno, 2002).

The narration presents a research thirst in terms of economic aspects of war. This study aimed to explore the literature in search of finding any systematic and holistic set of studies explaining war and business complexity from certain aspects, to which we found no comprehensive evidence. Our literature did not have geographical or time bound barriers in terms of event occurrence though we were conscious of selecting studies that were published recently and in quality journals. Since literature does not provide any mechanism to understand complex and dynamic relationship between war and business, the study in hand calls for devising a framework to understand these dynamics and invites attention of the scholars to invest time and energy in devising the framework for studying different aspects of the war and business relationship. Following sections explain flow of the study. We start with the methodology of the study followed by 'Business Profiting From War', 'Business Suffering due to War', 'War Having No Effects on Business', 'War Profiteers', 'Ethical Considerations', and 'Conclusion'. Each of the first four sections contains derivatives driven from the respective literature and conclusion besides summing up the literature also presents the proposed framework.

### Methodology

Given the scattered nature of the relevant literature, we opted for a structured review (Iqbal, Akbar, & Budhwar, 2014) with minor exceptions. Hence considering quality, relevance, and recentness as three distinct criteria for selecting published literature, we targeted journals with reputation for quality i.e. listed in the Academic Journal Quality Guide of Association of Business Schools (ABS) 2015 and Social Science Citation Indexed (SSCI), contrary to (Claus & Briscoe, 2009) and (De Menezes & Kelliher, 2011) for searching through databases. Out of 22 area categories in the

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guide, based on their title relevance we chose five for our initial search for relevant literature i.e. 1) Business History and Economic History, 2) General Management, Ethics and Social Responsibility, 3) International Business and Area Studies, 4) Social Sciences, and 5) Strategy. Excluding 1 and 2 star journals, we only surveyed 4\*, 4, and 3 star journals in these five categories (See Table 1) and based on relevancy of their titles selected 39 out of 73 journals for further search producing 2 (4\* star), 7(4 star), 30 (3 star) journals (See Table 2).. Through advanced search options on the home page of every selected journal we aimed to dig out desired literature. As a first step 'War and Business' was used as main search term and surfed through the article titles of the first 20 pages of results for each journal ranging to some over 2000 articles and selected 119 articles based on their titles assuming their potential relevancy. This also included a few exceptions which can be seen in Table 3 with red entries increasing the number of sources to 57. Column labelled 'Searched Papers' shows the number of articles selected from each journal in the different categories. The updated list includes three additional categories from the respective guide i.e. Management Development and Education, Operations and Technology Management, and Organization Studies. We added a new category of Non-ABS sources which further comprises of journals, book chapter, and report. Now we have 4 (4\* star), 8(4 star), 31 (3 star) journals with the exception of 3 (2 star), 2(1 star), and 6 (non-abs) journals and two report documents and a book chapter.

At second step, abstracts, where available, of these papers were read for having better understanding the respective substance. Contrarily, conclusions or introductions of the papers were read if abstracts were not available. Similarly, review papers were skim read. Column 'Selected Papers' indicates reduction in the number of articles to 79 for further analysis. Column 'SN' indicates refined selection of journals which is 33 in total as only selected journals are numbered and the dropped ones are excluded from numbering. Table 3a explains the break-up of these 79 articles from different journals in different categories. Table 3b shows details of these articles. It also indicates 6 articles which were dropped at analysis stage further reducing the number of articles to 73.

Table 4 indicates the literature encompassing 73 articles is reasonably spread across the geography and time lines. Whereas, 10 studies did not target any specific countries, 21 studies were international in their scope.

Majority of the country specific research was done in the US followed by the UK with a huge gap between the two i.e. 26 and 4 respectively. This might make sense owing to their interest and degree of involvement in the world affairs. Similarly, we can also see majority of the research popping up in last 15 years i.e. 47 (23+24) in total with 1940s and 1990s to follow them with 10 each. This again can be correlated with the international hostilities during these decades lead by the US and shouldered by the UK. World War II, Gulf War I, War on Terror, and then invasion of Iraq, using Weapons of Mass Destruction as pretext, took place in respective chronological order.

Whereas column 'Empirical' in Table 3, Table 5, and row 'Empirical' in Table 5a present details of the empirical studies in respective tables, Tables 3aE, 3bE, and 4E are the derivative tables of Table 3a, Table 3b, and Table 4 respectively.

Whereas, 'Risk Analysis An International Journal' is a 4 star journal, all other filtered journals fall in 3 star category (See Table 2). Among the filtered articles 22 were empirical. Two of these 22 were dropped at analysis stage. Column labelled 'Searched Papers' shows the number of articles selected from each journal in the different categories. Following passages is confined to our review of empirical papers.

We could find literature reflecting impacts of war in directions such as business profiting from war, business suffering from war, war having no effects on the business, and war profiteers. The literature also raises some ethical implications of relationship between wars and business. The same source at many occasions had reflections on many aspects, mentioned above, meaning that the same very sources might be found in more than one sections in the following proceedings. Table 6 explains it. For a better understanding the flow of the text follows ascending chronological order of the publications. Following Sections elaborate further.

## **Business Profiting From War**

In our exploration of literature supporting the hypothesis that war benefits business, we first confronted a convincing fact through Gazeley (2006) indicating that pay differentials considerably decreased during the World War II with regard to skill, gender, or age. Contrary to women, men workers continued to emphasise on greater levelling in the

immediate post war years that started earlier in 1930s. He notices that the reduced gender pay inequalities in munitions industries during the war lost some of the gains in the peacetime after the end of war. Wartime labour policy aimed at deskilling of manufacturing work with significant expansion of unionisation, institutional and legal amendments giving strength to the bargaining position of the trade unions.

Belden, (1944) based on 'Wartime Public Reaction' foresaw determined efforts by the business to raise the American living standards coupled with chances of greater achievements or failure in the immediate post-war period than at any time in its history. He saw certain public relations problems for the business to solve after the war. Referring a respondent he pointed out the potential crack at of about 10,000 Army and Navy public-relations officers at the job after the war. We do not find war record too encouraging in public relations. The post-war period all pervasive confusion may also confront business as well which would be on new ground again. Public relations vision aims at fresh perspective in dealing with the varied objectives and in facilitating prompt and constructive action. Continuing from Belden, we find Parker (1995) associating significant attitude changes with the rally forces during the Persian Gulf War. His analysis presents positive performance evaluation of, both, George Bush and the U.S. Congress; trust in federal government, personal finance assessments, and economic expectations. However, he states that within 10 months most of the attitudes returned to pre-conflict levels.

Kiser, (2001) carried on a study in England and France to find out if individual wars produced instant impacts on taxes, or if the cumulative effect of long periods of warfare were more crucial. He also studied the change in administrative capacity and the strength of representative institutions mediating the war in its push of state growth. He finds strong cumulative effects of war in both cases suggesting that war made states via 'ratchet-effect' which gets further strengthened by improved administrative capacity of states in terms of centralization and bureaucratization. He found contrasting results in England and France where the strong representation in the assemblies increased the effects of war on state growth in former and decreased in the latter.

Whereas, Maher, (2015) in his study on Colombia's palm oil industry argues that civil war violence is supportive for international trade. His analysis shows that violence resulting from hostilities between Colombia's public armed forces and the paramilitaries of the right-wing enabled the palm oil sector not only to enter the globalised economy but also compete in it.

Resultantly, Kaen, (2011) reports in his study on 'World War II Prime Defence Contractor-Were they favoured' that the U.S. government between 1940 and 1944 issued \$175.066 billion contracts to prime defence contractors. However, he does not find support to allegations that the prime contractors were favoured.

### Derivatives from Section

War history around the world draws some important lessons. Countries would even go to war when suiting their national interest; it may be economic or otherwise. Business communities are all vigilant in seeking opportunities amidst threats of war destruction as evident in the case of US indulgence in several wars around the world pursuing its hegemonic designs to which economic strength is an integral prerequisite. It is also evident that wartime increased government expenditures can also produce impressive production output, this is especially true for the winning states. Wartime urgencies may be helpful not only in reducing pay inequalities but also in improving efficient income distribution. Governments may influence public opinion through propaganda machinery during wartime but it may not last for long afterwards.

War can foster production efforts in the warring countries in the presence of uninterrupted supply of raw material. Countries need to be more vigilant to avoid business decline immediately after the war ends due to the reduction of wartime government expenditure. Accordingly countries need to device vibrant foreign exchange policies and sound strategies to tackle pressure on the reserves in the first and second decades of the Great War respectively. If carefully read, economists can draw lessons from the war to strategize upswing and downswing effects of long waves of after the war. Countries with improved administrative capacity and strong representative assemblies can draw strength in state growth from war. Certain sectors which are essential for continuing and winning war get more chances of flourishing during the war then others. MNCs need different

manoeuvring strategies in different countries to avoid unbearable damage in wake of any broken hostilities between the different states. However, overwhelmingly threatening environment of war can also foster opportunities in certain sectors to benefit and enter in the globalized economies in competitive style.

States around the world need to confront the emergence of ultra-state entities in shape of giant corporations and global financial institutions as these non-public representative entities are fast usurping powers from governments who are by and large representatives of their respective public. Failure in successful taming of this ever increasing threat would mean further compromising security of lives and resources of billions of human beings around the world to handful elite having little or no concern to human conscience and overwhelmingly profit oriented. The fact that business companies are increasingly taking part in political sphere, where clash of interest between business community and public at large may result in trade off, calls loudly to human conscience for a more rigorous and fool proof settings to safeguard the interests of public at large without compromising the ground for a fair business environment. We reassure that in times of crisis states need to be more firm in their political resolution when dealing with the business giants as business objective tend to be profit oriented rather than polity centred.

## Business Suffering from War

We also found enough material in the literature citing negative impacts of war on business. A prominent set of civil war literature reveals that internal armed conflicts have severely negative impact on economic growth. The literature also highlights its similar negative impact on the processes of economic globalisation which arguably result in economic growth. Interstate war also constrains international trade (Maher, 2015).

As discussed earlier, (Kiser, 2001) war increased the effect of state growth in England despite having strong representative assemblies. His study finds a war induced increase in the taxation which even afterwards is retained, at least partially, sets a new 'normal' level of taxation. Hence, complete pre-war level normality is not witnessed suggesting that the causal effects of war are of much longer time slice. The empirical history of England shows warfare increases price dispersion (Jacks, 2011). We also find strong

evidence to support a monetary hypothesis that participation in World War I necessitating expansion of the money supply and increase in its variation was at the roots of instability in Portuguese society (Costa-Gomes, 1999).

Exploring the German involvement in the two world wars gives a handful material reflecting negative impacts of the bloody endeavours. It is believed that the occupied France had to severely cut its consumption to pay off the occupation charges to Germany which played a major role in Germany's war effort. Decreasing the real wages and a draft of labor to Germany further burdened France. Whereas France required huge budget surpluses to manage the accumulated domestic debt, however, post-Liberation inflation slashed the real debt (Occhino, 2008).

Caruana (2007) finds that Spain economically suffered enough to refrain from joining the Axis in wake of successful total embargo on oil for Spain in August 1940 by the Allied forces. Though the wide spread literature support the predominance of the 'resource curse' argument, Di John does not find support for the 'resource curse' argument for associating probable political violence with the resource abundance, especially oil (Di John, 2007).

It was again the economic costs that the US had to bear in Iraq War, amongst other implications, which turned its public opinion against the war, which was once as high as 60% in favour of war. Similar trends were noticed in the United Kingdom (Everts & Pierangelo, 2005). Empirical evidence from US data of 1948-2008 supports that financial costs of war negatively affects presidential popularity (Geys, 2010).

Somehow correlation also exists between countries with high contribution to UN and degree of vulnerability to terrorist attacks (Elbakidze, 2012). Domestically speaking, Rose, (2007) indicates that electricity customers can absorb 86% of the potential shock to their respective business operations. His analysis also shows that through dampening of general equilibrium, market resilience lowers the losses. However, it does imply a negative impact of such incidents at least by 14% which can increase in absence of the prerequisite measures.



### Derivatives from Section

States need to avoid breaking up of any civil wars to avoid its negative impacts on economic growth and international trade. If failed in arresting the eruption of it then must be extra proactive in setting aside its negative impacts. States need to strategize for combating the long term negative effects of war in terms of increased taxation levels, borrowing, money supply, inflation, and price dispersion etc. It is vitally important for states to best avoid war at any possible cost because failure can render the state multi-fold damages and can take away any bargaining power. However, history is evident i.e. Germany after WWI, such intolerable measures also make nations more prone to radicalization.

Though our review of resource curse argument has not much support in case of oil rich countries to predict greater risk of war, however, the literature review inside our studies indicate the same to be true. International community needs to draft laws preventing business interests in enemy states from unfair treatment. History highlights that people suffering economic downfall would turn against pro-war policies and respective presidents. Finally, counter terrorism strategies need careful devising as addressing the root causes of terrorism carries vital importance. Treating the symptoms would hardly solve the issue. States need to revisit their policies which breed germs for sever retaliation in shape of infamous terrorism.

### War Having No Effects on Business

Studies conducted before or in the initial phase of World War II reveal that the American public opinion did not anticipate emergencies. It started to change after successful invasion of Norway. Public opinion considerably aroused in favour of conscription of even a very limited nature only after subsequent successful invasion of the Low Countries. However, people began to consider a German victory harmful to them personally when Hitler successfully invaded most of Europe (Cantril, 1940). Similarly, research also could not find the needed support to President Roosevelt's claim that he had altered his priority from 'The New Deal' to 'Win the War'. Research finds the assertion that wartime spending transited economic objective into military objectives is inconvincing because spending patterns of the alphabet agencies patronised

under 'The New Deal' in 1930s were significantly correlated with the spending patterns during World War II (Bateman, 2003). Terrorism is the modern day threat to peace and hence negatively associated with business, however Rose (2007) indicates that at least in case of its impact on electricity, the customers can void by 86% the possible shock to their business operations. Moreover, through the dampening of general equilibrium effects, market resilience can further lower the losses. We witness the 'resource curse' argument empirically failing find robust support for the claim that oil rich countries are at greater risk of civil war. The study also negates the impression that oil economies succumb to political violence (Di John, 2007).

### Derivatives from Section

We primarily derive two main lessons from this section. First that public opinion is not always a correct prediction of unfolding future events and second that resource curse argument has not much support in case of oil rich countries in terms of greater risk of war.

### War Profiteers

This comes as a surprise that we could only found one empirical study on very important aspect of war that is war mongers that profit from the war out of proportion. That one study aligned with our expectation indicates opportunities from within crisis for some people. Wars are also a profitable scenario for quite a few businesses. For instance, when the US government needed finances during the two world wars, the best brains in the advertisement world were induced in the campaign of maximal purchase of war bonds for the US (Streib, 1948).

### Derivatives from Section

Though on a nutshell literature is unable to explicitly put its weight in favour or against war with contextual reference to business interests, there are certainly some businesses which definitely profit from such deadly endeavours. Government's urge to muster required financial resources to wage war binds it to use, among other strategies, propaganda machine to achieve its objectives. War zone contractors are among those who definitely benefit from war like situations and not only receive higher payments but also easily escape accountability in many cases.

Beyond doubt weapon industry is the definite profiteer in wartimes. Following section discusses some ethical implications arising from the literature. 03319999016

### **Ethical Considerations**

Colombian palm oil study revelation of public armed forces' and right wing paramilitaries' violence forcing local displacement in surge of acquiring land for palm oil (Maher, 2015) gives evidence to raise ethical questions in pursuit of economic benefits. The world also faces dilemma of tackling the highly indebted countries such as Uganda whose leaders exploit the anxieties of the creditors concerning its bankruptcy in its favour to force creditors to tolerate Uganda's indulgence in plundering neighbouring Congo's resources (Reno, 2002). This is happening in the 21<sup>st</sup> century.

Though none of the studies in this research raised ethical questions explicitly but there are obvious references in the text which draw attention for ethical concerns. Throughout the history wars are waged on several pretexts but seldom are any wars declared on sole motto of economic hegemony while the secret documents, when unclassified, more than often had a clue for the same. Every time, winning country would squeeze economic benefits regardless of the originally stated objectives for waging the war or indulging in it. Business communities are prone to such attractions and would rigorously instigate such potentials if they foresee quenching their interest in such eventuality. This urge for profiteering cannot be accommodated on any ethical grounds against the bloodshed of hundreds of thousands of innocent lives. But who shall bell the cat? No one is ready to stand against the mighty rather they would support such endeavour anticipating their due or undue share. Business code of ethics is ruthlessly violated under the garb of patriotism and or other 'moral grounds'. Forced and slaved labour has been well recorded fact of even recent history. Expansion of the business in morally questionable fashion has been the norm throughout the history. Following section concludes our study.

### **Conclusion**

We may conclude that literature provides evidence in many directions of a relationship in question but it lacks in absolute clarity of such a direction indicating

complexity of the relationship. Though we reviewed literature published by quality journals but our research did not find any thematic studies readily available. The study was undertaken to ascertain relationship between war and business. For this purpose we filtered 73 articles from 33 journals of high quality ranking mostly listed in ABS Guide with 4\*,4, and 3 star ranks. We further shortlisted 22 empirical articles for our study from 11 journals of 4 and 3 stars categories and dropped two of them in analysis stage. A considerable number of studies i.e. 6 contributed in more than one direction. This indicates complexity in the findings. Two out of 6 studies that contributed in section 'Business Profiting from War' also contributed in two other sections including its opposing section 'Business Suffering from War'. Three out of these 6 studies that contributed in section 'Business Suffering from War' also contributed in section 'War Having No Effects on Business' and one study contributed in 'Introduction' and 'Ethical Consideration'. For details please see table 6. We found 115 different variables used in our 20 empirical studies. Whereas 1 of these 115 variables is used in three studies, 32 variables are used in 2, and rest in single studies. However, we found four variables used in multiple studies but with slight variation in their labels i.e Tax (Actual Taxes, Direct Tax Centralization, Evaluation of the Gasoline Tax, Indirect Tax Centralization, Model Taxes, Tax, and Taxation), GDP (GDP, GDP Growth, GDP Per Capita, Per Capita Economic Growth, and Ratio of Debt to GDP), Victims (HRPV Victims, and Victims), and Imports (Imports, and Oil Imports). For details please see tables 7 and 8. Our review indicates a dire need of investigating this important relationship on sound footings. On the basis of our review we invite researchers to develop an initial framework to study the dynamics of war and business relationship.

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