

The Entrepreneurial Impact of Terrorism

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In the quest for innovation, job creation, and economic growth, entrepreneurship research has cared a great deal about high-growth start-ups, unicorns and gazelles. Yet in abject disadvantaged contexts, entrepreneurship's primary function is to alleviate multiple suffering, such as unemployment, and poverty. One of these contexts is the Middle East & North Africa (MENA), with evidence from the Institute for Economics & Peace listing the MENA region as the world's most adverse region. Although adversity in the MENA region comprises multiple sources, perhaps the most common adversity in the MENA region is terrorism, making the Middle East home to three of the top 20 countries in the world in terms of the overall terrorism index. In fact, during the past years, terrorism in the Middle East has not only amplified in scale and scope, extending beyond the direct destruction caused by the attacks to entrepreneurship through the disruptions of supply chains, innovation, and the ability to maintain a competitive edge, but also increasingly targeted the religious diversity of the region.

Despite these challenges, some MENA countries have witnessed a dramatic leap in the number of fast-expanding start-ups and an amazing supporting ecosystem. For instance, a recent MAGNiTT report ranked Egypt as the fastest growing entrepreneurial ecosystem in the MENA region and the second largest after UAE, raising questions about whether entrepreneurs in such adverse contexts use a distinct approach to survive. In an effort to understand the response of entrepreneurs to adverse shocks, particularly terrorism, we examine the effect of terrorism attacks on entrepreneurs' willingness to pursue their occupation. Terrorism attacks tend to be concentrated in economic contexts that are under-developed, with strong tensions across communities and lacking strong institutions. Meanwhile, in such a context, entrepreneurship represents an important or the most important way of creating a livelihood, with SMEs accounting for 75% of the labour force. In this study, we leverage a unique historical event; that is the 2011 revolution in which large daily demonstrations took place in Egypt resulting in a period of instability in which the police had all but disappeared from the streets (Acemoglu, Hassan & Tahoun, 2018), leaving entrepreneurs dissatisfied with the security and economic situation (GEM 2012). Combining the Global Terrorism database, which provides detailed data on the terror attacks occurring during this era, with a database containing a random sample of Egyptian individuals, our findings show that terror attacks push entrepreneurs towards recognizing entrepreneurship as a future permanent occupation, suggesting a plausible distinctive approach to survive in response to an adverse terror attack.

Drawing on human capital theory, we probe into entrepreneurs' human capital to highlight how differences in entrepreneurs knowledge and skills explain their perception of entrepreneurship as permanent occupation. We find that the positive effect of religion dissipates for Copts, the largest Christian minority in Egypt as terrorist groups claim responsibility for Coptic bombings killing hundreds of Copts during the past years (Michaelson 2017, Declan and Ezz 2018). Our data shows that 82% and 88% of individuals killed and wounded respectively by terror attacks in 2011 are Copts and as a result Copts are 11% less likely to regard entrepreneurship as a permanent occupation compared to Muslim entrepreneurs. We also find that entrepreneurs affiliated with trade unions are 18.9% less likely to regard entrepreneurship as permanent occupation. In this respect, trade unions provide human capital benefits, including insurance, employment, suppliers, and social benefits, but estimates show that trade unions density of employment is dwindling in Egypt to approximately 11%. Last, entrepreneurs in larger firms are also 4.5% more likely to regard entrepreneurship as a permanent occupation.

Implications

First, policy-makers need to understand that in the presence of terror attacks knowledge and skills might not necessarily translate into more persistence and tailor support programs to ensure that entrepreneurs continue to play their stabilizing role in the economy despite terror attacks. Second, entrepreneurs need to understand that their knowledge and skills shape their interpretation and response to adverse events that threaten their survival.

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