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War and International Business: Insights from Political Science

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How might businesses foster peace? We borrow insights from political science on the causes of war to guide IB scholarly research. We analyze war as a bargaining failure and present five causes of war (unchecked authority, intangible incentives, uncertainty, commitment problems, and misperceptions). We then identify business-for-peace initiatives (modifying incentives for war and peace, ex-combatant demobilization and reintegration, providing information, mediation and track-two diplomacy, peace guarantees, and community engagement) and propose research questions for each. Our work has important implications for IB scholars conducting research on firms operating in conflict-prone environments.

INTRODUCTION

The 2022 Russian invasion of Ukraine not only disrupted the world economy but also brought into question the role of businesses in war zones, which faced increasing pressure to act. Early in the Russo-Ukrainian war, we witnessed how some multinationals, including McDonald's and Lufthansa pulled out of Russia while others, such as Subway and Emirates, kept operating. Such divesting and exit decisions seemed more related to consumer activism and stakeholder pressure than strategic decisions.¹

Given increased stakeholder oversight, operational risks, and economic opportunities, as well as managers' personal convictions, businesses are interested in stopping violence that may negatively impact their operations. Research shows that firms can help fill gaps in governance and are likely to engage in peacebuilding when there is a minimum level of peace and rule of law (Melin, 2021a). Unfortunately, many business decisions are made without an understanding of the underlying causes of war.² Without such an understanding, firms' decisions to exit, voice dissent, or stay in conflict zones, can exacerbate the risk of violence, even when doing what they believe is ethical. Indeed, business activities have complex interactions with peacebuilding and development efforts and may even have unintended effects (Miklian, 2019). Fully understanding the consequences of business choices requires international business (IB) scholars to examine these choices with knowledge of

the underlying causes of war. This paper seeks to fill a gap between international business and political science scholarship. We aim to improve IB scholars' understanding of violent conflict and of how businesses can help to foster peace in these challenging environments.

While there is no universally appropriate business response to war, political science can offer insights into the causes of war so that we may better analyze corporate activities related to peacebuilding, be it international or domestic. Similar to how IB scholars view negotiation, many political scientists explain war as a bargaining problem in which eliminating the bargaining range causes violence. In other words, war is the failure to reach an agreement. Based on this, firms may help create or enlarge the bargaining range by altering the cost-benefit analysis of violence.

Next, we outline the bargaining theory of war and explore five general causes of war. Then we provide research ideas for IB scholars to investigate how and when businesses can help to foster peace and contribute to the United Nations' Sustainable Development Goal 16 on Peace, Justice, and Strong Institutions.

CAUSES OF WAR

Many political scientists understand war (and violent conflict more broadly) as a bargaining failure: using violence to ultimately force an outcome over the distribution of a good rather than coming to an agreement.³ Suppose two states

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¹ See Oetzel & Getz (2011) for cross-national survey evidence of local and international stakeholder pressure prompting corporate responses to violence.

² Conflict scholars differentiate between wars and major and minor conflicts based on the level of battle-related deaths (see Most & Starr, 1983). For simplicity, here we use "war" to refer to any armed conflict, be it international or civil, or violence at the community level.

have a dispute over a territory. They could negotiate to split it or wage war to try to win it all. As war is both risky (the outcome is uncertain) and costly (war shrinks the “pie” being split), a bargaining range exists in which any deal that the parties strike is preferable to war (Fearon, 1995). Yet, we see wars starting as recently as February of 2022. Therein lies the war puzzle: if armed conflict is an inefficient solution to a (re)distributive issue, why does it happen at all?

The bargaining theory of war allows for understanding any armed conflict, whether international, civil, or even local, such as gang violence. This point is relevant to IB scholars because multinationals not only have to contend with war between states but also with violent conflict within the host country. Moreover, civil wars are now much more common than international wars.⁴

Five conditions make violent conflict more likely to break out between rivals (Blattman, 2022):

1. **Unchecked interests.** If a leader does not have to internalize the costs of war (i.e., they can avoid paying the consequences), they would be more willing to attack. This explains why authoritarian leaders are more conflict-prone and may be at work behind the Russian invasion of Ukraine.
2. **Intangible incentives.** Glory-seeking or ideological and religious ideals, which would lead to profiting from war in non-material ways, make war more likely. For example, moral outrage against the rival may shrink the bargaining range.
3. **Uncertainty.** Leaders face information problems such that they may not know which split of the pie could be proportional to the power relation. There is a disagreement on the power ratio between the rivals. This makes war more likely because the expected value of war determines the bargaining range. Uncertainty about which deals satisfy both parties increases the risk of armed conflict.
4. **Commitment problems.** Even if rivals would come to an agreement, one or both may not make a credible commitment to upholding the agreement in the event of a shift in power in the future. For example, were Ukraine to cede territory to Russia, nothing would stop Russia from demanding more concessions. Note that this connects back to uncertainty, as the credibility of a commitment is an information problem.
5. **Misperceptions.** Cognitive biases may also make violence more likely. Misperceptions about oneself (e.g., overconfidence) and one’s rival (misprojection or misconstrual) may make a party reject an offer, even if it is within the bargaining range. Put differently, the inability to consider that the other side might

have a different perspective or that one’s own is erroneous may lead to war.

These five war causes reinforce each other; that is, the more of them are present, the more likely violence will break out. Considering solutions to these causes may better guide scholars to study what companies can do to build peace and prevent conflict.

BUSINESS-FOR-PEACE INITIATIVES: HOW CAN MULTINATIONALS FOSTER PEACE

By focusing on the five causes of war, IB scholars can analyze whether international business and multinationals’ current and future activities exacerbate or help resolve violent conflict. The key for businesses to foster peace is to adopt policies that make violence less attractive, raise war costs, and resolve information problems. Next, we present six business-for-peace initiatives that may address one or multiple causes of war in [Figure 1](#).

1. **Modifying incentives for war and peace.** Violent conflict can be averted by modifying the incentives of the warring parties. Firms may prevent violence by raising the costs of war (increasing the benefits of peace) and holding leaders accountable – thereby addressing war cause 1 (unchecked interests). Should businesses, and especially multinationals, threaten to divest from countries that threaten war, the use of violence should become even less attractive and bargains more likely. In the liberal peace literature, the risk of disrupting economic links creates commercial interests that are adverse to war (Russett & Oneal, 2001). This research suggests that businesses can offer both “carrots,” through expanding international investments, and “sticks,” through exiting the markets of those states at risk of going to war. Regarding civil wars or localized violence, firms may invest in areas at risk of insurgency to address some of the grievances that could fuel mobilization, and they could threaten to withhold support from leaders to pressure them to seek a solution to domestic troubles before they escalate into armed conflict. For example, the global diamond industry has agreed upon the Kimberley Process, which made the trade of conflict diamonds less likely and reduces the income of rebel groups profiting from illegal mining.
2. **Ex-combatant demobilization and reintegration.** As civil war peace agreements often involve costly programs for disarming, demobilizing and reintegrating (or “DDR”) rebels, there is frequently a need for

³ While there is debate in International Relations research on the causes of war, as the Realist school of thought sees war as a response to external threats to power and opportunities to gain power, we focus on the bargaining model since it offers insights of use to the IB academic community.

⁴ According to the UCDP Conflict Encyclopedia, in 2021 there were 54 active armed conflicts in the world: 2 international and 52 internal. Only 32 out of more than 200 states were involved in armed conflict that year.

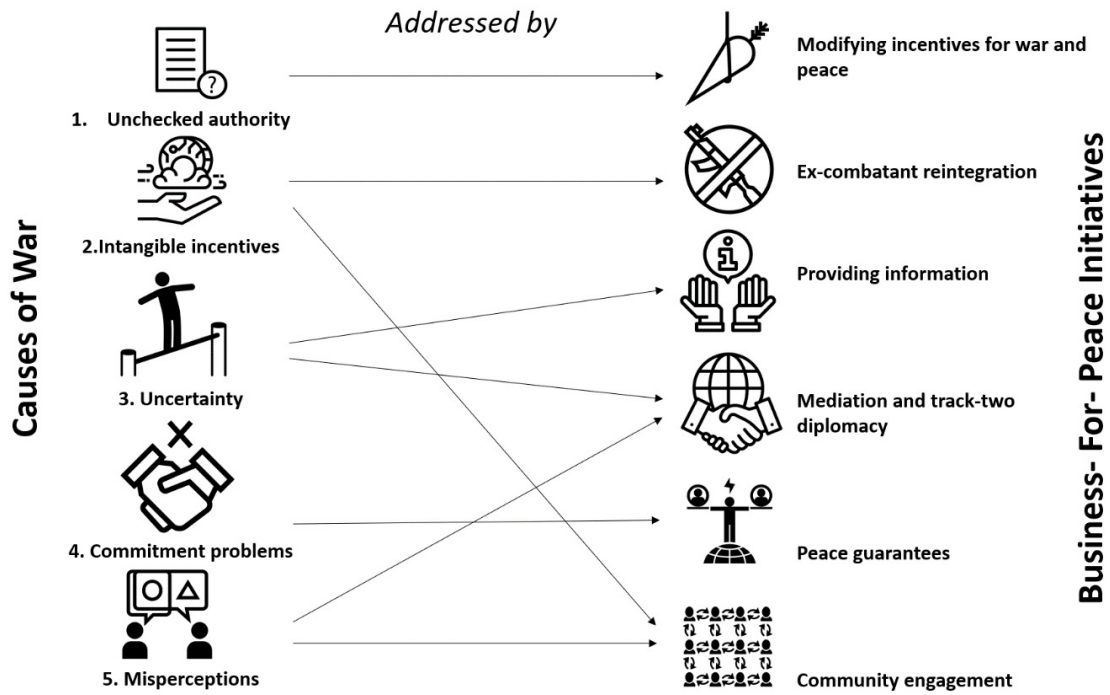


Figure 1. Causes of War and Business-for-Peace Initiatives

Note: The Noun Project allows using the five war causes and six business-for-peace icons under a Creative Commons license. This figure highlights the linkages between firm activities and the underlying causes of war. Examples of each type of firm action can be found in the text.

outside resources to help implement the agreement, and international businesses are in a position to offer both resources and employment (Rettberg, 2020). This addresses not only individual incentives to mobilize but also war cause 2 (intangible incentives), as abandoning ex-combatants to their own devices could make them experience moral outrage and make recidivism more likely. For example, Femsa Coca-Cola was one of around 500 companies that pledged to hire demobilized ex-combatants in the wake of the Colombian peace agreement.

3. **Providing information.** Typically, violence ends once enough information is revealed to reduce the disagreement between the sides on their relative capabilities, i.e., their power ratio (Wagner, 2000). Research shows information about likely war outcomes and other factors may persuade a warring party to demand more or less in peace negotiations (Reiter, 2009). This suggests that companies might encourage a peace deal by providing information on the costs of war, such as how economic activity will suffer between the nations, in the case of international war, or between groups in civil wars or localized violence, thereby addressing war cause 3 (uncertainty). For example, in Northern Ireland, the Consortium of Business Industry (CBI) published the “Peace Dividends” paper, highlighting the potential economic growth a peace deal would bring.
4. **Mediation and track-two diplomacy.** Third-party facilitation in conflict might prevent war or help achieve peace more quickly. Research on conflict management, negotiations, and peace processes sug-

gests that outside actors with biased ties to one disputant are likely to act more rapidly to end the conflict and be accepted as mediators by the disputants (Savun, 2005; Svensson, 2007). While businesses rarely play a direct role in negotiations, businesses can both use backchannels (unofficial) to encourage negotiations and serve as a credible third party in periods of tense disagreement and uncertainty – thereby addressing causes of war 3 (uncertainty) and 5 (misperceptions) – and lend legitimacy to peace processes (Rettberg, 2020). For example, the multinational Nutresa was an active participant during the negotiations with the Revolutionary Armed Forces of Colombia (FARC).

5. **Peace guarantees.** Peace cannot be achieved if a party cannot credibly commit to a negotiated agreement. Research on resolving wars shows that mechanisms within ceasefire agreements, such as demilitarized zones, dispute resolution commissions, and third-party guarantors, such as peacekeepers who monitor and enforce the agreement terms, can help overcome these challenges (Fortna, 2004). This research indicates that businesses may prevent and resolve war bargaining problems, offering to ensure neither side breaks the peace deal, thereby encouraging a negotiated settlement – tackling war cause 4 (commitment problems). Indeed, businesses can help ensure a peace deal is upheld by upholding and fostering the rule of law and serving as an observer that agreement terms are being upheld. For example, during the Jasmine Revolution in Tunisia, private sector

Table 1. International Business-War Research Agenda

Business-For-Peace Initiatives	Research Questions
Modifying incentives for war and peace	• How do multinationals' corporate political activities impact the prospects of peace domestically and internationally? • Which types of multinationals' investments prevent conflict escalation in communities? • Do multinationals' threats to divest impact the prospects of war?
Ex-combatant demobilization and reintegration	• How does the involvement of the private sector in peace accord negotiations and implementations impact the durability of peace, especially in terms of reintegrating ex-combatants into economic life? • What determines the successful integration of ex-combatants as employees? • What are the costs and benefits of hiring ex-combatants?
Providing information	• Which multinationals' corporate political activities, such as calls for peace, are more effective in reducing uncertainty between rivals that could help them reach an agreement more rapidly? • Does consultation between multinationals and politicians reduce the risk of war? • Does corporate reporting help reduce information asymmetries between rivals?
Mediation and track-two diplomacy	• Which multinationals' mediation strategies are more effective in bringing the parties to the negotiating table or enabling a successful deal? • Are multinationals more likely to be mediators than local firms? • Are multinationals' subsidiaries better mediators than their headquarters?
Peace guarantees	• Which multinationals' governance efforts better prevent conflict and war? • What role can multinationals' play in the implementation of peace agreements? • Does entry mode impact the role of a multinational as peace guarantor?
Community engagement	• How does norm diffusion by multinationals eliminate intangible incentives for war? • Which global staffing strategies allow for more effective community engagement? • Which stakeholder engagement strategies prevent conflict? • What are the synergies and trade-offs between multinationals efforts on SDG 16 and advancing other SDGs such as SDG 7 on access to affordable and clean energy or SDG 8 on the promotion of decent work?

union leaders ensured their members would demonstrate peacefully when pushing for democratization.

6. **Community engagement.** Higher quality of life and greater access to political participation reduce individual incentives to join a rebel group (Walter, 2004). In these cases, businesses can adopt policies that make violence a less attractive decision at the individual and community levels (Melin, 2021b). Private sector engagement affects local-level factors that can make traditional forms of employment more appealing (and therefore violence less attractive). Investing in community programs, offering training opportunities, and providing a desirable workplace that promotes social cohesion can encourage would-be rebels to pursue peaceful business rather than violence while repairing the social fabric and lowering the tensions inherent to “us vs. them” thinking – addressing cause 5 (misperceptions). In addition, the inclusion of marginalized groups and sharing prosperity also addresses cause 2 (intangible incentives). For example, before the Good Friday Agreement, US companies operating in Northern Ireland adopted the MacBride Principles, which required fair hiring practices. These ensured more Catholics would be employed (reducing grievances), and other firms followed suit.

The bargaining theory of war, as well as business scholarship on private firm actions in volatile environments, suggest firms are uniquely situated in a position to raise

the costs of violence. Violence becomes less attractive when firms engage in peacebuilding (Melin, 2021a). While not all firms have the same leverage, there is evidence that having any large firm engaged in peacebuilding can have a spillover effect that reduces the probability of violence. Additionally, we assume that firms are interested in fostering peace if given the know-how, but in cases of failed states, uncertainty, and instability, firms are less interested in making such investments. That said, there are gaps in our understanding of the outcomes of firm engagement, especially when it comes to multinational firms. To this end, we present potential research questions in [Table 1](#) based on the initiatives described above. These questions address antecedents of firm behaviors, firm decision-making processes, and the consequences of said behaviors.

CONCLUSION

Solving the grand challenge of war and achieving the United Nations' Sustainable Development Goal (SDG) 16 on Peace, Justice, and Strong Institutions might be perceived as out of the scope of businesses (Gallo, Sosa, & Velez-Calle, 2022; Ghauri, 2022). Yet, companies increasingly recognize their role in peace and conflict, as they have much to lose in violent environments. Businesses are therefore increasingly considering their role in promoting stability and reducing harm to social cohesion where they operate (Montiel, Cuervo-Cazurra, Park, Antolín-López, & Husted, 2021), as calls for firms to play active roles in pursuing

the SDGs mount (Cuervo-Cazurra, Doh, Giuliani, Montiel, & Park, 2022; Ghauri, 2022). However, studying the relationship between the private sector and peace requires IB scholars to familiarize themselves with the causes of violent conflict.

Building off the bargaining theory of war, we argue that businesses can play an important role in peacebuilding and conflict prevention. The key to achieving this outcome is for companies to adopt policies that make violence less attractive, raise war costs, and resolve information problems. To guide future scholarship on the topic, we have explained the causes of violent conflict, discussed business-for-peace initiatives that address each of the causes, and provided IB scholars with research questions related to these initiatives so that IB scholarship may better inform businesses about how to better aid in the achievement of SDG 16.

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