

## **The Effects of Terror and Violence on Entrepreneurs in the Eastern and South-eastern Regions of Turkey: A Field Research**

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### **Terör ve Şiddetin Türkiye'nin Doğu ve Güneydoğu Anadolu Bölgesindeki Girişimciler Üzerindeki Etkileri: Bir Alan Araştırması**

#### **Abstract**

This study primarily aims to investigate the effects of terror and violence incidents on the entrepreneurs drawing primarily on the concept of terrorism including the targeted segments and objectives of terrorism. Then, the study expands on the impact of terrorism on the economy and firms. The empirical investigation section contains a field study on Diyarbakir, one of the leading providences of the Turkey in terms of its exposure to terrorism and violence for long periods of time. A survey is employed to gather data from the business owners in the city of Diyarbakir.

**Keywords** : Terrorism, Economy, Business, Entrepreneurship.

**JEL Classification Codes** : M21, M29, R11.

#### **Özet**

Terör ve şiddet olaylarının girişimciler üzerindeki etkilerini araştırmaya yönelik bu çalışmada öncelikle terör kavramına değinilerek terör ve şiddetin hedef kitlesi ve amaçları ele alınmıştır. Daha sonra, terörün ekonomi ve işletmeler üzerindeki etkileri üzerinde durulmuştur. Çalışmanın araştırma bölümünde ise, bölgede uzun yıllardan beri devam eden terör ve şiddet olaylarından olumsuz yönde en çok etkilenen illerin başında gelen Diyarbakır'a yönelik bir alan araştırması yapılmıştır. Bu araştırma kapsamında, anket tekniği ile şehir merkezinde faaliyet gösteren işletme sahiplerinden veriler elde edilerek, bu verilerin değerlendirilmesi yapılmıştır.

**Anahtar Sözcükler** : Terörizm, Ekonomi, İşletme, Girişimcilik.

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### **Beyan**

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## **1. Introduction**

The impact of recent terror incidents on the economy and business is subject to investigation of different disciplinary fields particularly in the aftermath of the attacks of 9/11. This body of research seems to intensify in the USA, Spain, United Kingdom, and several Mediterranean countries. The main focus of these studies is to highlight the effect of terror on the general economical condition and tourism sector (Alavosius, 2002; Blomberg, Hess and Weerapana, 2004; Drakos and Kutun, 2001; Greenbaum et al., 2007; Sandler and Enders, 2004; Yaya, 2008). These studies employed time series analyses on the data collected from the selected regions to reach conclusions.

Terror incidents also occur in Turkey like other countries, leading to significant socio-economic consequences. The terror incidents and violence are suffered with relatively greater intensity in the Eastern and Southeastern regions of Turkey. This study attempts to explore the impact of on-going terrorism and violence on the economies of the aforementioned regions in Turkey. The current literature on the association of terror and violence with the economy in the Eastern and Southeastern regions of Turkey is quite sparse. The previous researches used secondary data obtained from the Statistical Agency of Turkey, drawing on the results of the time series analysis thereupon (Karagoz, 2008; Mete and Selami, 2008). Apart from the previous study, this study draws upon the primary data gathered through face to face interviews and surveys with the business owners who are exposed to terrorism and violence in the region.

This study was conducted by considering the theoretical approaches the negative effects of terror and violence on the economy. The primary goal of this research is to put forth the extent that the entrepreneurs suffer given the adverse effects of terrorism and violence. The other goal is to provide the prospective investors in the region with useful data. This study makes use of primary data (survey, face to face interviews) and secondary data (library and newspaper archives, internet databases). Considering the sensitivity of the people in these regions and delicacy of the subject matter, participants to the questionnaire survey were interviewed face to face in advance.

### **1.1. Terror in General Sense**

Terror has taken stage from time to time since the ancient ages; nevertheless, it absorbed the attention of the world agenda frequently since 1970's. It has various methods and purposes, rendering it difficult to reach a common definition. Therefore, various definitions of terror exist in the literature. Briefly to describe, terror is the systematic use of violence, intimidation and fear in order to coerce a power or a government (Larousse, 1986: 11445). Terrorism is the political activities of the individuals and minorities based

on violence against people, property and institutions of the society (Larousse, 1986: 11445). A more comprehensive definition of terrorism as a method and an end is “A sustained systematic political and partially military strategy to pacify society and engender paranoid, dubious individuals lacking self-confidence, give rise to feeling of turmoil and chaos, deteriorate confidence in the government, shake the foundations of thought and perception by instilling fear, intimidation and panic in society” (Citlioglu, 2007: 29-30).

The interior and the foreign opposition groups of a country usually follow mainly two methods, namely giving rise to revolts in a country and terrorist attacks. Terrorist attacks rather than setting up revolts are carried out against a country with strong economy and military (Blomberg, Hess and Weerapana, 2004: 463). Terrorism is one of the critical threats to humanity regardless of the actors, reasons and motives behind it (Tascier, 2006: 59). Terrorist experts consider terror as an interdisciplinary method of war. Terror is not restricted to national scale rather it is global in nature. The global actors behind the terror experienced in Turkey seem to support this argument (Serpen, 2007: 1).

When terror is thought to stem from the problem of the sharing of the sources, Turkey has a geopolitical significance, being on the crossroads of three major sources, namely water (Euphrates-Tigris Rivers), energy (Gulf and Caspian oil) and cultivation centers (Cukurova-Mesopotamia). Turkey either possesses these sources or located very close to them. Turkey lies in the middle of the two major cultivation and production centers (US-Europe and China-India) as well. From the perspective of real politics, since Turkey has a considerable effect on the production, distribution channels, with its location on the route of water, energy and food sources, growing population and developing economy, it continues to grab the attention of the national and international political circles (Acun, 2006: 3).

## **1.2. The Purposes of Terror**

Terrorism is “calculated” violence. Its purpose is not to kill as much people as possible, rather to get the masses under influence by terrorist activities (Kislali, 1999: 230). The target of terror which spoils reason and thinking processes and confuses masses is to generate an atmosphere of distrust and uncertainty. While the atmosphere of distrust stemming from terror enhances the anxiety of people regarding the future, uncertainty raises feelings of no control. One other aim of terror is to create a sense of “we” and “they” partition promoted by the radical circles (Kokdemir, 2003: 17).

Terror has various purposes connected with each other. The primary aim of terror is to ruin the morale of people and security forces and create panic by intimidating people and the targeted society. To this end, places like airports, schools, shopping centers,

restaurants, cafeterias in which multitudes of people gather are targeted. The other aim of terror is to shake the authority of state by degrading the public institutions, security forces and other public officers in the eyes of public opinion (Varol, 2007: 2). Terror mainly seeks to inflict psychological harm in society with minimum use of power (Sandler and Enders, 2004: 2). Terror is not there merely to kill and ruin but rather to demonstrate its superiority by intimidating society by its activities (Koknel, 2006: 294). Terrorist organizations attempt to compel the government and realize their aspirations by instilling fear in public through violence and tension (Tascier, 2006: 63).

Although terrorist organizations have different goals, in general these can be classified under 3 broad tactical goals (Tavares, 2004: 1042):

- Drawing attention: Terror is an instrument utilized to convey the public about a goal and a cause. Since the terrorists want to draw the attention of public, they target prominent figures and strategic places such as cities, residential areas, schools, trade centres where they can inflict heavy casualties.
- Causing political instability: Terrorists operate outside the mainstream institutional politics to grind down the existing political structure in order to enhance their chances of achieving their goals. They seek to create authority gap in order to broaden their cosy area of movement, thereby, gaining domestic and foreign support for their activities.
- Imposing damage on economy: Terrorist initiate acts that bring about tangible harm in order to pressure the society as a whole, thereby hindering economic development by affecting commercial investments, banking and finance sectors.

### **1.3. The Association between Terror and Economy**

Terror cannot be taken as an ordinary act of violence; rather it is quite a complex and multifaceted phenomenon, partially military in nature, which is fostered by multiple or particular basis originating from many different economic, political, social, cultural grounds (Citlioglu, 2007: 29). Terror gets more complicated because of today's advanced media, communication and transportation means and availability of various weapons (Gillingham, 2004: 479).

There is a close relationship between terror and the other economic and political phenomena. One of the prominent factors fostering terror is economic deprivation. Building order in a society is possible when the needs and understanding of people in the community are shaped by a certain degree of unity of interest. Frustrated people appear

as authority forming the order is sometimes not able to meet the needs of people in the society entirely and the general norms and structure contradict with some peoples' needs. The existence of frustrated people brings forth reactions with different degrees against the existing order and authority. These reactions can occur in the form of violence and further extend to terrorist acts (Dilmac, 2004: 1).

There is a strong negative relationship between economy and terror. The business is less prosperous in countries with high levels of violence when compared to countries with lower levels of terrorism (Nitsch and Schumacher, 2004: 423). There is a significant relationship between expansion of terrorism and economic development. Terror is a crucial impediment to economic development (Blomberg, Hess and Orphanides, 2004: 1008). The effects of terror and violence can be juxtaposed as follows: loss in production, unreliability in the delivery of goods and slack, high unemployment, decrease or cease in investments, increase in military expenditure, barrier to foreign investment and capital (Frey et al., 2007: 2; Lenain et al., 2002: 5; Mete and Selami, 2008: 226).

As for the relationship between terror and economy, two major issues seem to be prominent. One problem is entrepreneurs' avoiding risks and hindrance of innovative thinking due to lack of confidence, fear and irritation. The other issue is the change in the consumer behavior because of the inconvenient conditions i.e. lost of the attraction of the market as the transportation costs increase due to dense security controls (Alavosius et al., 2002: 6).

One prediction regarding the impact of lasting terror incidents is that the economy reaches equilibrium at underemployment and underdevelopment levels by the time. Fluctuations occur in the market, income distribution gets worse, asset values decline due to decreasing incomes, balance sheets wear away, cost of debt increases due to the perception of risks, deficit cannot be controlled easily. The dynamics behind this pattern can be better understood when we look at the topic from a micro perspective. The changes in the behaviors of both the producers and the consumers play a major role in the aforementioned inclinations (Civelek, 2003).

The effects terrorism on the commerce and business generally can be gathered under 3 topics (Nitsch and Schumacher, 2004: 424-425):

1. The atmosphere of distrust that the terrorists bring forth increases the business running costs. The almost unpredictability of the terrorists events render the business plans useless. The tension and the pressure that terror brings in the society change the production and consumption patterns in the country and the shopping, transportation and tourism preferences of people in particular, thereby influencing international trade.

2. The increase in the security costs against terror extends distribution cycle and raises marketing costs. Because of the lack of confidence which brought by the terrorism, the appeal of the market decreases for the businesses which would endure more risks.
3. Terror targets the goods and supply chains that give the country competitive advantage. As Ricardo put in his “comparative advantage theory”, some countries produce some goods because of their competitive advantage. Terrorist actions target these kinds of advantages.

Terrorism hurts the economies of the developing countries as it hits the tourism sector which is thought to be a tool of development and integration with the global economy for these countries. By damaging the tourism sector which is critical for the economies of the developing countries, terrorists simply attempt to persuade governments and draw the attention of the media (Yilmaz and Yilmaz, 2005: 43). It is the tourism sector which is affected the utmost and the fastest by terrorism. In the aftermath of a terrorist attack targeting tourists and a tourism region, the first response of the tourism consumers is to leave that region and to delay or call off their traveling plans. Consequently, the tourism income declines, hurting primarily the economy of the country and the firms in the tourism sector as well (Drakos and Kutun 2001: 1; Emsen and Deger, 2004: 69; Yaya, 2008:2; Yilmaz and Yilmaz, 2005: 47).

Terrorist organizations require a considerable amount of financial support to achieve their goals and sustain their activities. The terrorist organizations which depend heavily on foreign countries long ago come up with new sources of income (Aykin, 2008: 1). With their important income bases, terrorist organizations grow day by day. On one hand they finance terror using these funds; on the other hand they try to sneak into the economic system under legal cover to their finances. The terrorist organizations which slip into the economic system grow and prosper with the businesses they establish or acquire. Although terrorist organizations conserve their traditional modes of functioning, today they prove to become more complicated. Terrorist organizations are not merely forces carrying weapons, instead they seek to have an impression of a business owner. For instance, IRA deploy its illegal income particularly in the small scaled businesses such as supermarkets, cafés and hotels which require higher cash in-flows. The income of the organization from the legal transactions and real estate promotion is claimed to be twice as much as the revenue it makes from the illegal activities (Aykin, 2008: 3). From the reports and the verdicts it can be understood that the major financial sources of the on-going terror in Turkey consist of smuggling, and non reported trade, drug trafficking and other black money transactions (Aysan, 2008).

The motivation of the employees is influenced unfavorably from the violence and pressure where terror and violence exists. The firms working in these circumstances

have difficulties in staffing (Hamermesh, 1999: 311-330). Both prospective investors and the existing business would be influenced adversely from the likelihood of terror. Furthermore, the foreign investors take their investment back and shift them to other countries or call off their investment decisions (Abadie and Gardeazabal, 2003: 120; Greenbaum et al., 2007: 1094).

Although a large body of research exists on the direct effects of terror on the economy, its indirect impact on the economic decisions of the regional economies and business units is overlooked.

## 2. Methodology

The entrepreneurs running business in the providence of Diyarbakir in Turkey participated in this study. 250 people were contacted. When the people who did not want to fill out the questionnaire and declined our request for interview and questionnaires with missing values excluded, 111 usable responses were included in the analysis. Because of the problems with access and time limits, random sampling method was employed to collect data. The research contains both primary and secondary data. Given the sensitivity of the people where the data collected and the delicacy of the subject matter, some entrepreneurs who participated to survey interviewed face to face in advance. The data were collected using a survey questionnaire in this explanatory study.

The questionnaire items prepared especially for this research in the light of the existing literature and the items were measured by using 3-point Likert Scales (1= no, 2= some, 3= a lot). Frequency analysis is employed to analyze the data. Calculated reliability coefficient of questionnaire (**Cronbach's Alpha**) used in survey was found “.80”. The obtained data were analyzed by using SPSS version 16.0 For the comparison of categorical and demographical variables  $\chi^2$  (chi-square) test was used. Statistical significance were accepted as  $p < 0.05$  level.

*Background of the research field:* Diyarbakir is one of the most exposed cities to on-going terror since 1980's in the Eastern and Southeastern regions of Turkey. As a result of rising tension and violence, people who were forced to leave or migrated voluntarily from the rural areas settled in the cities of the region, particularly in Diyarbakir (Keyder and Üstündag, 2006: 112). The city which has been exposed to various terror and violence incidents in the last two decades experienced 10 wide shop lock-out (i.e. businesses cease to operate temporarily or permanently mainly because of fear and pressure of terror) cases throughout or in some parts of the city. Diyarbakir is included in this study for she is the political center of the region where terror exists for years and is assumed to be a good representative of the socio-economic features of the region.



According to the data obtained from the Diyarbakir Chamber of Industry and Commerce, 5703 registered firms operate in the city. While the total asset value of the firms in Turkey is 1.5 million Turkish Lira (TL), it is 6.5 thousand TL in Diyarbakir. While the total sales in Turkey are 1.7 trillion TL, it is 6.9 billion in Diyarbakir. 72894 people are employed in the city (Ministry of Industry and Commerce Data 2009).

### 3. Results

The 2% of the participants have literacy, 27% has primary education, 52% is high -school graduate and 19% has university degree. Although random sampling is used, all of the participants turn out to be male. This indicates the low ratio woman entrepreneurs in Diyarbakir. The 53% of the enterprises participated in the study employ between 1 to 10 people, 13% employee between 11 to 20 people, 12% employ between 21-40 people, 13% employ between 41 to 60 people and 7% employ more than 60 people. The data seem to support the hypothesis set forth. No significant difference occurred when the participants were compared for level of education, age and the number of workers they employ.

The frequency of the responses of the entrepreneurs regarding the terror's impact on the hindrance of enterprise growth, sales volume, recruiting qualified personnel, causing lack of motivation, psychological anxiety and engendering distrust, hindering sound decision making and planning for future is given in Table: 1.

**Table: 1**  
**The Relationship between Terror and Violence and Growth, Sales Volume, Recruiting Qualified Personnel, Motivation, and Sound Decision making and Planning for Future**

Questions	A lot		Some		No	
	n	%	n	%	n	%
As a business owner how far do you think the terror hinder your capability to develop your company?	47	42,3	36	32,4	28	25,2
Do the terror and violence cause your business to operate under capacity and decline production?	30	27,0	52	46,8	29	26,1
To what extent terror and violence hinder your ability to hire qualified workforce?	41	36,9	38	34,2	32	28,8
Do the terror and violence reduce your motivation?	35	31,5	43	38,7	33	29,7
What degree of psychological anxiety and lack of confidence do the terror and violence raise in you?	36	32,4	49	44,1	26	23,4
Do terror and violence reduce your ability to make sound decisions?	28	25,2	48	43,2	35	31,5
Do you think that the terror and violence hinder you from planning for future regarding your business?	42	37,8	32	28,8	37	33,3

*n=111*

It was found that there was no significant difference in terms of answers of sample participants when comparing sectors of sample participants with education level and ages. When entrepreneurs employing 6-10 employees compared with entrepreneurs employing 1-5 employees using  $\chi^2$  (chi-square) test, it was found a significant difference ( $p < .05$ ) among variables of, unable finding qualified labor force, unable long- range planning, hindering sound decision making, prevention in growth, Psychological anxiety and lack of confidence. Results are presented in Table: 2.

**Table: 2**  
**Entrepreneurships Employing 1-5 Employees Compared with Entrepreneurships Employing 6-10 Employees Using Chi-square Test**

Variables	$\chi^2$	p
Unable finding qualified labour force	19.182	0.01
Unable long- range planning	12.109	0.017
Reduce ability to make sound decisions	11.996	0.017
Prevention in growth	10.679	0.03
Psychological anxiety and lack of confidence	9.860	0.043

In the last 2 decades, there were 10 incidents of shop lock-outs in whole or some parts of the city. Two questions were asked to capture the reaction of entrepreneurs to these incidents. When the respondents were asked how many times they involved in an incident of lock-out, 41% said never, 39% more than 3 times, 20% 1 or 2 times. In order to find out the level of social influence among the entrepreneurs regarding lock-out, they were requested to reveal their thoughts about the negative reactions in the neighborhood. In order to find out the entrepreneurs who lock out their shops because of the concern about the reactions coming from the neighborhood, they were asked whether they lock out because they shy from the reactions coming from their neighborhood. 31% of the respondents revealed that they do not care about the reactions at all, 30% was effected somewhat, 40% responded that they shy a lot from the reactions.

#### 4. Discussion and Conclusions

The study investigated whether the terror and violence in the Eastern and Southeastern parts of Turkey have negative impact on investments and entrepreneurs and the extent of this impact. In the introductory hypothesis of the study it was presumed that the terror and violence would have negative impact on the entrepreneurs that carry out business in the region. The following results obtained from the data of the sample containing 111 entrepreneurs seem somehow remarkable:

- More than 70% of the entrepreneurs think that terror and violence hinder growth, sales volumes, and access to qualified workforce. This result confirms the studies of time series analyses (Alavosius et al., 2002; Greenbaum et al., 2007; Hamermesh, 1999; Nitsch and Schumacher, 2004; Sandler and Enders 2004; Tavares 2004) arguing on that terror and violence influence economy, employees and entrepreneurs through risk aversion resulting from lack of confidence, frustration and fear and hindrance of innovative thinking as well. In addition, according to a report revealed in 2010, despite the incentives and privileges (such as tax exemptions, land, insurance premiums) given to existing entrepreneurs in the Eastern and South-eastern parts of Turkey and investors out of the region, they refrain from investing in the region (Turkey Official Bulletin, 08.02.2010).
- The 77% of the entrepreneurs participated in the study think that terror and violence raise anxiety and lack of confidence. The major target of terror and violence is to instill fear and psychological anxiety in society to persuade its supremacy. The studies on ETA in the Basque Region of Spain, IRA in United Kingdom and in Italy also hold that this is usually the case when a society experiences terror (Abadie and Gardeazabal, 2003; Kokdemir, 2003; Sandler and Enders, 2004; Varol, 2007).
- The proportion of entrepreneurs who think that terror and violence have a negative effect on motivation, sound decision making and long-range planning is 70%.
- According to results of this study, entrepreneurs employing 6-10 employees have been affected from terror and violence much more than entrepreneurs employing less employees.
- As for the incidents of shop lock-outs that occurred 10 times depending on various reasons, 41% of the entrepreneurs did not involve, 20% took part 1 or 2 times and 39% involved more than 3 times. Additionally during these events, in comparison with entrepreneurs closing shutters of their work places in fear of damage, those employing 1-5 employees are much more than those employing 6-10 employees.
- The proportion of the entrepreneurs who lock out because they shy from the reactions of the people around is 69%.

The ratio of entrepreneurs who voluntarily support lock-outs is at a quite remarkable level (31%). At the beginning of the study it was assumed that for business owners who employ more employees than the regional average would be expected to incur higher costs such as salaries, rent and tax and hence would not support lock-outs. On the contrary, the findings do not support the presumptions at the beginning of the study

requiring further discussions. In this vein the reasons behind the lock out decisions of the entrepreneurs merit further investigations as the entrepreneurs decide to lock out despite the fact that they incur higher business running costs. Some entrepreneurs whom were asked about the reason of their lock-outs during the structured face to face interviews also came out to suffer psychological and physical harm stemming from terror and violence.

The findings suggest that the on going terror and violence in the region for a long time have damaging impact on the entrepreneurs and the general economic prosperity of the region. The future researches that investigate the effect of the terror and violence on different sectors of the economy are expected to contribute to our understanding of the subject matter.

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