Banking under Conflict: Managers and Organizational Design

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8th EBRD–CEPR Research Symposium “The Frontiers of Finance in Emerging Markets”
London, June 23–24, 2026

How do organizations adapt when ethnic conflict intensifies?

The trade-off (Dessein 2002 [1]):

City-coethnic manager

Better local information, weaker alignment with HQ

vs.

Bank-coethnic manager

Aligned with HQ, weaker local information

The setting:

- 974 branches: 16 Ethiopian banks, 2018 $\rightarrow$ 2022
- Conflict shock: 2020 Tigray War, ACLED fatalities
- Exposure measure: conflict near a bank's other branches (network)
- Identification: branch & time FE; bank-coethnic cities as placebo; Beta-Israel IV

The empirical evidence

1. $+9.2$ pp more likely to appoint a city-coethnic manager (non bank-coethnic cities only)
2. -15.1 pp less likely to appoint a bank-coethnic manager
3. $\downarrow$ delegation: smaller loan-approval limit for the manager on duty
4. $\uparrow$ insiders: $+6.3$ pp probability of a reallocated insider manager
5. $\approx$ credit: loan volume, rates and defaults barely move

Can we conclude information frictions (q') dominate bias (b')? Paper: YES

Is the information-bias tradeoff the dominant mechanism?

The model recapped

	Manager type	
Conflict intensity	**Low conflict + city-coethnic** **Some delegation**	**High conflict + city-coethnic** **Delegation cut**
	Low conflict + bank-coethnic **HQ indifferent**	**High conflict + bank-coethnic** **HQ still indifferent**

Authority margin (Prop. 1i): delegation falls as conflict increases bias

Appointment margin (Prop. 1ii): depends on the relative strength of

$$q'(\gamma) \qquad \text{vs.} \qquad b'(\gamma)$$

$\rightarrow$ The model provides a rationale for the observed appointment shift, BUT the sign of the appointment effect is ultimately empirical

1. Organizational stress

Network exposure may capture more than ethnic salience

With 16 banks, each bank's `NetworkExposure` trajectory is a near-bank FE shock

Conflict elsewhere in the network may induce:

- tighter risk management
- liquidity or capital concerns
- greater HQ oversight
- more conservative lending policies

Alternative interpretation: less delegation even without changes in ethnic alignment

$\rightarrow$ Why does delegation appear to respond even where ethnic alignment concerns should be weakest? As suggested in Table 3 (Panel A) + wild-bootstrap inference

2. Labor-market frictions

Suppose conflict changes the supply of managers

During conflict:

- Non-local managers become unwilling to relocate
- HQ struggles to move staff
- Travel becomes costly and risky
- External recruitment becomes harder

Alternative interpretation: banks may appoint city-coethnic managers because they are available (or even trusted/legitimate), not because they possess better information

$\rightarrow$ In fact, the paper shows internal and experienced reassignments (Table 4) $\rightarrow$ make it much more central

3. Managerial trust

Suppose conflict forces banks to replace manager

New managers (also new "insider" managers) simply get less authority by standard practice

Alternative interpretation: Managers are trusted less by HQ because they are new in their role and not because of delegation itself

→ A useful test: Does delegation fall for incumbent city-coethnic managers who were already in place before the conflict?

- Yes → supports the paper
- No → managerial-trust mechanism becomes plausible

4. Communication

The delegation cutoff is $L(b) = \Delta(b)/b^2$, where $\Delta(b)$ is the information lost to strategic communication under centralization (Dessein 2002 [1])

When conflict rises, $b(\gamma)\uparrow$, but Δ also depends on how well the manager communicates with HQ, not just on how biased she is

Alternative interpretation: conflict only increases the value of local information

$\rightarrow$ Prediction: the delegation cut should be smaller for city-coethnic managers with longer tenure because they can still transmit information credibly (compressed Δ) even when b rises

$\rightarrow$ Useful test: interact `Network Exposure` $\times$ `Tenure in Bank` in the delegation regression (Table 3)

More on communication: synthetic CEOs (Table 6)

The AI may reproduce patterns already present in the economics literature on:

- delegation
- communication
- information vs. bias

The vignette may thus not be eliciting an independent reasoning by a bank executive

Footnote 22 rules out contamination from this paper, not the underlying literature

Possible placebo tests:

- non-banking hierarchy
- non-conflict setting
- alternative prompt framing (no mention of delegation, alignment, etc.)

My take

Rich and insightful paper at the intersection of Organizational and Conflict Economics

My comments focus primarily on the mechanism (and a few identification rants):

1. Delegation vs. organizational stress
2. Appointment vs. labor-market frictions
3. Delegation vs. managerial trust
4. Communication vs. organizational design

Theory should be invoked more explicitly to rule out competing mechanisms

Dessein, Gong, Lambert and Wagner (2026 [2]) examine a related information–bias trade-off within a supervisory hierarchy (theory + an application) ☺

Great paper – good luck!

Thank You

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