

The Effects of Terrorism on Businesses

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ABSTRACT: *This paper adds to business performance literature by exploring the connection between terrorism and country-level global business performance. To proxy for company success, a measure of a country's distance from the frontier score of the Doing Business index of the World Bank is used. The findings of the projections of fixed effects based on 173 countries over 7 years (2009-2017) indicate that terrorism has no major connection with the success of global industry. We then split our sample into countries that are stable, emerging and vulnerable. The findings still indicate that the sub-samples of developed and developing countries do not have a robust, meaningful association between terrorism and market success. The findings based on the sub-sample of vulnerable countries, however, indicate a substantial negative association between terrorism and market performance. The findings are consistent with an alternative market output indicator and prediction approach that controls endogeneity.*

KEYWORDS: *International Businesses (IB), Globalization, Terrorism, Terrorist Groups, Economic Threat.*

INTRODUCTION

Terrorism causes both major economic and human losses. For instance, in 2015, the global economic effect of terrorism hit US\$89.6 billion, which was just 15% smaller than the previous year, when it was US\$105.6 billion. Overall, terrorism-related expenses have risen 11-fold in the last 15 years. The human toll of terrorism is similarly staggering, with terrorist casualties rising worldwide from just over 11,000 in 2007 to over 26,000 in 2017. Terrorism incidents rose from about 2,800 in 2007 to about 11,000 in 2017 during the same time span. Fatalities within the countries of the Organization for International Co-operation and Development (OECD) rose by more than 900 percent between 2007 and 2016, with the highest increases in Turkey, France, the United States and Belgium[1].

Many longitudinal researches attempting to assess the effect of terrorism on corporate results have contributed to the increasing economic and human cost of terrorism. These findings collectively indicate that terrorism has a negative impact on corporate performance, but the result is sometimes reversed in the short or long term[2]. Focusing, for example, on the effects of terrorism on the tourism industry, Pizam and Smith found that a large proportion of terrorist attacks (79%) resulted in a substantial decrease in tourism demand that lasted from 1 month to 6 months, with a rebound in around 50% of cases within 3 months.

Our understanding of the relationship between terrorism and business success is still limited for a variety of reasons, considering the largely reliable results of existing studies; hence the need for our research. Firstly, recent research relies largely on the impact of extremism on the share prices of businesses listed on stock exchanges or in the tourism industry. Unlike previous research, this paper attempts to relate, as identified by previous data, the impact of terrorism on business performance at country level rather than at company/sector level[3]. This illustrates the cumulative collective influence of extremism on the overall results of a country's companies. The key benefit of this policy is that it captures the general market climate of each country rather than at the level of the company/sector and, thus, the business output of all businesses, both listed and unlisted. This is the first time in the existing literature that such data has been identified. Second, there are very few, but conflicting reports, considering the suggestions that terrorism can impact business performance in developed and fragile countries differently.

For instance, with regard to the developing/developed dichotomy, Procasky and Ujah find that terrorism results in higher debt costs for the sovereign risk of the world and, by default, for the businesses in the affected countries. In comparison, the effect was more severe in emerging countries, where the authors observed that a similar two-point rise in crime, on average, culminated in a full downgrade of the country's sovereign credit ranking. Essaddam and Karagianis find that, compared to businesses in developed nations, businesses based in affluent or more democratic countries are facing greater uncertainty in stock returns[4].Llorca-Vivero, on the other hand, discovered that the harmful effects of extremism in developed countries are stronger. The conflicting data from Essaddam et.al means that it is not clear if extremism is more influenced by developed or emerging countries.

With regard to vulnerable nations, we have not found a report that has investigated why, considering the severity of terrorist attacks in those countries, terrorism impacts these countries differently. The magnitude of such acts of terrorism is attributed to the lack of capacity of these countries to domestically project power; they also have incompetent and corrupt law enforcement capabilities that provide openings for militant organizations to infiltrate, train and work within them at lower costs and with little intervention or oversight by the government[5]. For instance, because of the country's inability to project influence domestically, Al-Qaeda and other terrorist organizations are using the southern region of Afghanistan as a safe base to mass-produce trained terrorists. There have been many calls for the need for analysis and strategy to focus further on these nations, provided that companies have long been the favored targets of these attacks.

Against this context, the paper is inspired to decide if, based on whether the nation is categorized as stable, emerging or vulnerable, the impact of terrorism on market results may differ. In these nations, we conclude, the impact of terrorism can depend on how they are categorized because of the presence of structural voids, which appear to be quite common and weaken the behavior of multinational corporations operating in these areas. 'Institutional vacuums' apply to situations under which the institutional structures required to facilitate the normal operation of the market are absent or weak or do not perform the position they are supposed to play. This also translates to larger market expenses. Many vulnerable states are distinguished by a persistent deterioration of preconditions applicable to the current economies, such as the system of government, the rules of trade and sovereignty, as well as the structures required for the operation of the economy, i.e. the governance system, the standards for transparency and the functioning of the judiciary[6].

In more extreme cases of structural voids, multinational corporations (MNEs) are best able to fill these voids for their host countries, which also generate high costs for these companies. We claim that the mixture of high threat risk and serious structural voids, where companies are learning to respond to dangerous and high-risk conditions while running and maintaining workers and properties, makes vulnerable countries an acute market climate. Given that problems are especially challenging to solve in developed nations and vulnerable countries, it is important to figure out how terrorism impacts firms in such a climate. We used a panel of 173 countries over the period 2009-2017 in order to accomplish our goal.

The World Bank's Doing Business index has been used to capture business results. In comparison to regulatory best practice, the gap to the frontier score benchmarks economies across many metrics addressing Doing Business topics. The distance of a nation to the frontier score reflects the degree of the difference at any given moment between the market and the regulatory frontier. We argue, therefore, that economies farther away from the border are more likely to perform better. Contrary to current results, our findings show that extremism in either developed or emerging countries does not impact business performance[7]. Finally, considering research on the relationship between terrorism and economic success in various fragile countries, we are the first to show how terrorism impacts the performance of industry in fragile countries.

TERRORISM AND ITS EFFECTS ON GLOBAL BUSINESS PERFORMANCE

In order to create a connection between terrorism and business results, many prior studies offered a variety of theoretical and empirical data. Growing data shows that both direct and indirect expenses are caused by terrorism, adversely impacting corporate results. Lenain et.al concluded that during times of terrorist threats, more efficient investment could be crowded out by money dedicated to strengthening defense in both the public and private sectors, thereby increasing the cost of capital and labor. These unfavorable market environments have differential effects on business efficiency, both in the short and long term. Similarly, in order to drive business expansion, fear of terrorism often inhibits investment. Becker and Rubinstein concluded that the risk of terrorism raises the degree of financial volatility that adversely affects customer behavior and investment decisions of businesses[8].

According to Sandler and Enders, the direct cost of terrorism is concentrated, allowing commercial operations to be replaced by comparatively vulnerable industries with relatively safer ones. This replacement helps major corporations that are diversified to cushion their losses. Owing to the possibility of being impacted by a terror attack, customer choices are more likely to be affected. Terrorism often hinders economic success by increasing the cost of doing business in terms of higher salaries and higher defense expenses. Brodeur claimed that the cumulative psychological effects on company sustainability and development of the possibility of a potential terrorist attack and the direct effect of rising airport security has a detrimental economic impact. The already insufficient financial capitals, which can contribute to detrimental market results, are adversely exhausted by other costs. The fear of instability under certain situations, on the other hand, most likely generates a positive environmental jolt for businesses to ensure that they succeed[9].

For example, homeowners in Ohio increased their preference for lower density housing following the attack on September 11th. Zycher found that there was a large increase in demand for defense and technology-related enterprises since the attack on 11 September, although tourism-related enterprises experienced a decrease in demand. In those Mediterranean countries which have suffered terrorist attacks, Drakos and Kutan noticed a parallel decrease in demand for tourism and a major increase in destinations perceived to be safer[10]. In addition, it is also suggested that resource gaps between countries may dampen the impact of terrorism or accelerate recovery from either a large-scale or sustained attack. We expect terrorism to have a huge effect on business efficiency, considering the total indirect and direct costs associated with terrorism and the fact that it provides a favorable environmental jolt for businesses to prosper and optimize their performance.

CONCLUSION

For decades to come, terrorism may face major dangers. Via its overt and indirect consequences, terrorism threatens IB. Terrorist economics benefits terrorists at a rate of billions of dollars to defend from terrorist attacks, when the cost of terrorists is in the millions or less. Globalization gives terrorists more access than ever before to powerful technologies, better recruitment, and more exploitable sources and targets of rage. Company targets are relatively more attractive to terrorists as policymakers tighten protections at public locations. In Europe and the United States, a new focus on homeland security could merely divert terrorists to harder targets run by countless multinational corporations. Insufficient security, for example, was a significant factor in India's Mumbai attack. The Indian authorities were taken off guard in the Mumbai attack by commandos with superior firepower and technology in a well-orchestrated raid. The commandos utilized modern technologies to perform preoperational monitoring of the target assets, traversed the Arabian Sea using global positioning systems, and easily located their targets from Google Earth satellite imagery, and used satellite telephony and voice over Internet protocol to keep in close communication with their handlers.

Instantaneous contact allowed the handlers, watching the events unfold on live television, to alert the commandos to the movements of security forces, thus prolonging the attack. And when nations are planning for terrorist threats, they are often unable to plan for all sorts of attacks or defend all potential locations. The capacity of terrorists to exploit technical savvy to conduct attacks is an emergent dimension of global terrorism, and a possible focus for future study. Relatively fragile are MNE supply chains and other foreign properties. The security of sensitive properties, especially those most likely to be targeted, should be stressed by companies with substantial foreign operations. Company activities that increase the cost of terrorist attacks minimize the risk of an attack. For defending against terrorism, joint interventions are the most successful. Joint efforts with governments and other businesses should be conducted by corporations.

To plan to face evolving challenges, continuous alertness and environmental scanning to identify and track emerging threats are critical. Skillful plan conception and execution significantly decreases risk. By designing and executing adaptive planning plans, the threat of terrorism will be further minimized. Although global economies' interconnectedness has encouraged the emergence of extremism, it also provides a degree of resilience that businesses can use to handle disturbances in their foreign operations. It is not necessary to eradicate the possibility of terrorism. The role of terrorism in the IB must be understood better. To discuss the IB and the evolving landscape of terrorism, there has been very little academic study. We have presented a comprehensive review of existing, relevant literature in this article to provide background on the relationship between terrorism and IB for scholarship. For potential studies, we have offered an agenda. Scientists are encouraged to give useful perspectives and effective solutions, consistent with the early stages of study, which shed the required light on terrorism and help, reduce its destructive effects.

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