

# Terrorism Studies in International Business: Increasing Knowledge, Reducing Victimization

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**WE SUGGEST THAT TERRORISM STUDIES** have become an integral part of the international business (IB) literature, despite the difficulties inherent in its research, and that the (ongoing) consolidation of this literature stream now provides IB researchers and practitioners with an affluence of insights to benefit from in the future.

## From windmills to ugly faces

Terrorism analyses have been part of research in the fields of political science, geopolitics and criminology for centuries. In business studies, the phenomenon was typically scrutinized in a limited manner, mainly under a financial or political risk management and insurance perspective and, by some, as one of several potential triggers of disaster management.

In the IB arena, barely any research made reference to terrorism before 9/11/2001; if so, studies were resolutely country- and sector- specific, mostly revolving around attacks on commodities or tourism. Terrorism was not seen as a business-relevant problem where business could bring a solution. It was mainly framed in terms of protection from the, mostly limited, effects of terrorism. As to whether business could either prevent or trigger terrorist activities was not part of the field's concern.

A new era of terrorism in terms of level of intensity, reach, target and location, particularly since the tragic events of 9/11/2001, changed sensitivities. This also generated increasing attention to terrorism issues in the academic work on the internationalization of the firm. A new stream of literature, launched by only a handful of IB researchers, led to a growing number of academics and practitioners who have dedicated their work to the analyses of terrorism from various points of view and with a more global business perspective. They have created a body of contributions that now advances our understanding of the phenomenon, its impact and resulting strategic implications for the international firm.

Yet, early contributors had to fight against the windmills of opposition to qualitative research, adversity founded in data limitations and the lack of a conceptual cradle. They thus had set out to embed their projects in the works of scholars including Mascarenhas (1992), who had stressed the particular exposure of international business operations to uncertainty, emphasizing the significance of managers' perceptions and judgment. Similarly, Kobrin's (1992) work on political risk associated

with foreign investment became a basis for extended argumentation in the context of terrorism. The way in which such events affect the firm depends, to a large extent, on the managerial perceptions of events and outcomes, which, in turn, will guide resulting action. Weir (2002) examined manmade disasters and postulated that risky reactions by companies are contingent on the negligence of appropriate strategies, or worse, in the belief in "managerial triumphalism."

However, any type of terrorism greatly increases the level of uncertainty in the complexity of international business (Enderwick, 2001; Suder & Czinkota, 2007). Global terrorism fosters a modification of perceptions, scale and scope of stakeholders, and it questions the universality of corporate tactics. 9/11/2001 and subsequent Western incidents of global terrorism have taught important lessons. General managers and strategists allow international business to look into the ugly face of terrorism and to yield paybacks from appropriate strategy rather than passively ache from unexpected tragedy. While the human suffering caused by terrorists can and will never be neglected or excused by managers, international business theory and practice can play a vital part of prevention and harm limitation by not caving into their goals.

## What changed on a conceptual level...

...was, first of all, the perception of risk and uncertainty. The scale, scope and target of 09/11/2001-induced terrorism, in its ugliness, has advanced international business understanding and capabilities. Terrorism has moved to the rank of a risk that needs to be assessed, evaluated and managed, and that the international firm of any sector needs not bear passively. The Boston Marathon attack has reminded the international events management and sports sector of this cruel reality.

The key objective of contemporary terrorism is the most efficient distribution of unexpected violence and the threat of violence against civilians that are (directly or indirectly) part of economic organizations and structures. The effect is maximized through the victimization of innocents and patrons of what they see as the capitalist world, and that a maximum of onlookers can identify with. More than a decade of experience with the new nature of this terrorism has triggered the increasing resilience of global and regional economic flows and forced firms to design new strategic adaptations.

One other recent example is the attack against gas exploitation sites in Algeria. Again, keeping international investors away from certain locations, disrupting value chains, spreading perpetual fear are meant to form an omnipresent and widespread threat.

As a result, for international business, global terrorism analyses have soared in importance and “terrorism” has changed from a mainly non-probabilistic uncertainty to a risk in its own name. As a management variable, terrorism has been entering the broad levels of corporate strategy and leadership. Marketplace, infrastructure, financial and reputational risks that many firms use to scrutinize domestically for their firm’s scorecard, have been adapted to global challenges largely ignored (or at least, limited) until 2001. They are now directly linked to the firm’s international environments and internationalization process, transac-

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tion costs, and firm management and performance under conditions of terrorism based risk.

We are looking at an increased understanding of the asymmetries of terrorism’s structure and methods. Managers have learned that terrorists operate with relatively limited means and seek significant implications in terms of direct, easily “tangible” consequences (such as terrible highly visible loss of life, shock, stress, etc.) and in terms of indirect consequences (e.g., loss of revenue, reduced negotiation and strategic opportunities, declining confidence of stakeholders, supply chain modifications).

The basis for this understanding in IB is rested upon Enderwick’s circles of analysis (2001), as well as early work identifying terrorism as the risk of violent acts to attain goals via fear, coercion or intimidation with a clear impact (directly) or via the international business environment (indirectly) (Czinkota et al., 2010; Suder, 2004). What terrorists seek are cyclic states of fear.

## Impacts of terrorism

“Terrorism” within the IB domain has proven to be a particularly demanding challenge for researchers and practitioners for two reasons: its unpredictability and its quasi-intangible yet real indirect impact on business internationalization and performance.

Direct effects primarily encompass damage or disruption for power, communication, transport and other infrastructure due to physical damage, injury, trauma and death on human level, and destruction on a

physical level. This level is mainly explored and conceptualized in the literature and includes business continuity planning/preparedness (Jrad et al., 2004; Zsidisin, Melnyk & Ragatz, 2005), business resilience (Enderwick, 2006; Sheffi, 2005), crisis management, disaster recovery (Decker, 2005) and disaster planning (Gerber & Feldman, 2002).

The analysis of indirect effects includes the examination of demand and supply effects, international transactions costs, international supply chains resilience and flexibilities, reputations, government policies, regulations, procedural changes (e.g., customs, migration, M&A policy) and the trends and flows of FDI and corporate internationalization strategy over time (Czinkota et al., 2010; Suder, 2004).

Interestingly, from the very cradle of such analyses, scholars and practitioners have recognized that the high perception of threat and uncertainty caused by terrorism may lead not only to loss but also to the creation of new business opportunities (Enderwick, 2001). This understanding was primarily grounded in observations of advantages yielded in the field of security, protection, insurance and risk management technologies. The redistribution of profit and revenue has characterized many sectors such as tourism, protection service providers or image collection and comparison firms. Global terrorism shapes FDI (re-)distribution, modifies (more modifiable) location decisions, and alters the scale and scope of global value chains.

The risk–return evaluation literature has added further insights into IB considerations, with some dilemmas and ambiguities. Two streams of research motivated by the negative risk return association have come into play to a somewhat insufficient degree: one stream results from a combination of the utility theory of Schoemaker (1982), prospect theory of Kahneman and Tversky (1979) and Bowman’s (1980) “risk–return paradox”; the other one, more process oriented, was initiated by Bromiley (1991) and Wiseman and Bromiley (1996) with the link between productivity increase and risk taking. However, in the international business literature, the risk/return evaluation conceptual frame investigates terrorism analysis and assessment, using empirical findings, to demonstrate that strategic choices are increasingly taking into account in a positivation of this global risk return evaluation, to help mitigate the risks and yield benefits despite of (or sometimes, thanks to) extreme contexts (Branzei & Abdelnour, 2010; Kotabe, 2005; Suder et al., 2013).

## Managerial issues

Today, firms consistently rate the uncertainty triggered by terrorism as high, and they undertake specific measures to reduce such risk (Czinkota & Ronkainen, 2009)

Mascarenhas (1982), in an early *Journal of International Business Studies* (JIBS) article, has already stipulated that only a systematic procedure for

reducing uncertainty can function efficiently to secure corporate performance in the long term, and had placed special emphasis on the methods of control and flexibility in qualitative research with MNEs. Kobrin (1992) added that strategy depends on whether the risk is systematic or not. Other methods of influencing uncertainty include non-market strategy, corporate social responsibility policies and social innovation.

In addition to the extension of these early works, the surveys of managerial assessment and evaluation of political, geo-political and geo-economic environments have extended terrorism research. In a nutshell, corporations today strive to include terrorism's impact (as one of several key issues of international stability) into their strategic planning and the (re-) configuration of international business activity, using three levels of analysis. First, there is the primary level, where the most immediate and direct consequences of a terrorist action are investigated. Second is the micro-level of analysis where specific regions, industries, or performance levels in international value chains are scrutinized over time. The third one is the macro level, where short-, medium- and long-term global shifts and adjustments are considered, and linked to corporate identity risk exposure analysis. The core of this latter concept is the idea that identity is based on a specific set of variables that determines (terrorism) risk exposure. Variables likely to affect the risk of a particular company as opposed to the risk from the environment will include the products and services a firm offers; the sector in which it operates; the strength of its brand image; the perceived country of origin; the location of its head office; its past behavior; its link to alien cultural values; its perceived size and wealth and the lore associated with the creation of such wealth.

### **Current research and practice: Future perspectives**

The international business literature took some time to acknowledge the importance of global terrorism risks and its impact on international commerce and corporations. This occurred not because of insufficient scholarly awareness of the significance of terrorism. Rather, the difficulty in obtaining company primary data regarding highly sensitive issues surrounding terrorism and corporate preparedness for it had drawn a barrier to early scholarly analysis that only a few researchers were able to transcend at that time. Also, the psychologically complex exposure to the phenomenon itself may be challenging, given that some significant research work required field work and on-the-ground interviews. Amongst the first to research and publish about contemporary global terrorism were Enderwick (2001), Trim (2003) and Suder (2004). Continued exploration of IB and terrorism issues centered on state-of-affairs analyses of direct impacts, the loss and adaptations in global terrorism aftermaths, followed by conceptualizations to model indirect impacts and the study of corporate strategies on a micro- and macro-level (Gillingham et al., 2008; Spich & Grosse 2005; Suder 2006).

Today, big data have become available from previously confidential corporate and institutional sources. Since terrorism is no longer seen as unique and rare, more analyses are facilitating further insights and better understanding.

We have thus recently seen the emergence of various specific sub-streams of terrorism studies affiliated with IB studies. These include, for instance, the work of Branzei and Abdelnour (2010), who set out to explain the somewhat paradoxical observation (at first sight) that enterprise activities often flourish under extreme adversity. A study of internationalization into high-terrorism risk, institutionally incomplete business contexts proposed by Suder et al. (2013) scrutinizes related organizational and managerial absorptive capacity from a learning perspective. Getz and Oetzel (2010) analyzed MNE strategic intervention in adverse conditions of uncertainty and violent conflict. Yet other

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studies propose insights into the indirect effects of terrorism on brand value and rankings; compare terrorism to financial risk effects, or conduct investigations into the building of social networks to help broaden manager's capabilities of dealing with terrorism. We now even see statistical analyses that endeavor to uncover the relation between terror and corporate performance, measured for instance by return on equity (ROE) (Suder & Czinkota, 2013). Finally, as a growing availability of big data emerges, research needs to distinguish more between groups of international businesses.

Some limitations to corporate awareness (and thus, barriers to learning and adaptation) have nonetheless been revealed. Certain types of corporations are likely to tackle the terrorism threat head-on and strive to adapt and strategize (e.g., firms that compete in risky locales), while other firms, be it out of lack of immediate necessity, ignorance or insufficient motivation, have less incentive to dedicate themselves to the repulsion and prevention of terrorism. They are thus more vulnerable in the long term. Also, there is concern that corporate attention to and adaptive strategies for addressing terrorism are correlated to the frequency and geographic relevance of terrorist events.

Overall, the study of terrorism and its context for international firms has become an integral part of the IB literature, despite the difficulties inherent in its research. The consolidation of this literature stream now provides international business researchers and practitioners with insights for use in continued work. Terrorism itself will hopefully suffer from this enhanced knowledge, which, over time may lead to knowledge resulting in the containment of victimization in the future.

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