

A study on Terrorism Risk in Multinational Corporations

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Abstract

This paper discusses the circumstances that may prompt fresh thinking about risk and its management at the policy and MNCs (multinational corporations) levels. How do MNCs deal with the strategic management risk associated with attacks like 9/11, which affects their decisions regarding internationalisation and cross-border business operations? It has been noted that multinational corporations (MNCs) are expanding the concept of political risk. Expanding the traditional risk-return analysis is recommended to include the impact of terrorism on investment, location, logistics, supply-chain, and other performance-linked decisions across the global value chain. The paper accomplishes this primarily through analysis and differentiation of the most vulnerable links in firms' value chain, for which adjustments need to be made in the face of terrorism threat, act, and aftermath. In an age of global risk and uncertainty, this paper seeks to advance comprehension of international management.

Keywords: Multi-national corporations, Risk, terrorism, global risk

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Introduction

It is acknowledged in this paper that 9/11-style terrorism poses a new and particularly demanding challenge in terms of internationalisation, as political risk assessment management tools typically account for direct physical shocks but lack such analytical representation of indirect effects. Using the ideas of the OLI Paradigm, it may be necessary to adjust F.D.I. and international production to account for the global scale indirect impact. Each of the three FDI theories (O, L, and I) considers a different set of factors that affects MNC activity and the global economic scenario; however, since 1979, Dunning's OLI Paradigm has served as a useful reminder that these theories are complementary. The advantages of company ownership are among the most significant reasons for a company's decision to expand internationally. In spite of the difficulties inherent in conducting business on a global scale, it is expected that the MNC will continue to thrive thanks to a number of inherent advantages. The question of where the business should set up shop is posed by the existence of locational ('L') advantages that vary by country. In order

to fully capitalise on its competitive advantage, core competency, and factor advantages, a firm must move abroad to take advantage of factors such as labour, land, and low political risk. Internal (I) benefits analyse the company's internationalisation strategy from within. Terrorism's direct and, especially, indirect effects on a company change as it progresses through its internationalisation phases. When calculating the potential rewards versus dangers, how do these phases factor in? Regardless of the entry strategy an MNC takes, it will still utilise a value chain. How vulnerable are the systems that underpin global activity, and where do risk assessments conducted in the wake of September 11th indicate adjustments are needed to deal with the fallout from terrorism and its root causes? To better accommodate the realities of today's uncertain and risky business environment, we make a clear distinction between these interconnections and classify the risk and return assessments of international firms along the OLI benefits.

Literature Review

We can trace terrorism back to the dawn of history. The Bible makes note of this quality possessed by the Roman Empire (Morris/Hoe, 1987; Schlagheck, 1988). During the 12th century, Hasan ibn-al-Sabbah, according to Princeton historian Bernard Lewis, rose to prominence as a terrorist in Persia (Vick, 2004). The hashshashin, led by this herbalist, were a group that smoked ritual cannabis as part of their resistance to the Crusaders in the Holy Land (Lewis, 2003). Despite the fact that terrorism has always been present on a global scale (Schneckener, 2002), it has gained unprecedented visibility since 9/11 due to its increased coverage in the media and the fact that it has now reached U.S. soil. Multiple, interrelated, and resurgent tendencies define contemporary terrorist activity, such as the use of religious justification, corporate-style leadership, asymmetric tactics, and victim exploitation for political ends. The global value chain management faces fresh difficulties in the wake of the 9/11 terrorist attacks because this type of terrorism presents new challenges beyond the simple globalisation of traditional terrorist tactics. Not just to topple an unjust government, but to "destroy a form of society and eliminate a way of life" (Aznar, 2004). By definition, terrorist organisations and their supporters operate on a global scale. The structures, which are more akin to networks than strict hierarchies, are made up of short-lived groups of people (Intelligence, 1995). Global resources are used to maintain financing and logistics, much like the transfer mechanisms of a multinational corporation.

The risk return analysis

While research into organisational risk-reward has grown rapidly in strategic management since the 1980s (Baird and Thomas, 1986; Bromiley, 1991; Wiseman and Gomez-Mejia, 1998), the threat posed by attacks like 9/11 has not received the same level of attention. Main statistical findings have consistently confirmed the existence of an inverse relationship between risk and return (e.g., Fiegenbaum and Thomas, 1995, 1988; Fiegenbaum, 1990; Bromiley, 1991). The first works devoted to the study of taking chances were grounded in expected utility theory (Schoemaker, 1982). The individual will choose the option that maximises utility while imposing the same level of risk; this is a central tenet of utility theory. The more nuanced approach provided by prospect theory (Kahneman & Tversky, 1979) is worth exploring. Here, a decision is made in a decision problem, and the possible outcomes are weighed against a reference point using a value function assumed to be in the shape of a S. It is the central prediction of prospect theory that most people will either be risk-seeking or risk-averse depending on whether the outcome is below or above the reference point the maker identifies at the outset.

Terror risk and Business Process

Although the OLI paradigms do recognise the most significant analyses and assessments made in international business and strategy research, it is crucial to note that the persistent application of technology to networking has increased businesses' susceptibility to attack. Management must take precautions, such as conducting risk assessments and forecasts, streamlining supply chains, and minimising the need for economic redundancy, to ensure the company can continue to operate profitably in uncertain and dangerous environments, where terrorist acts can have a significant impact on the bottom line. This realisation led us to expand the OLI paradigm by exploring new forms of conceptualization. Its inherent unpredictability necessitates the making of strategic decisions, the outcomes

of which can be ascertained through methods such as geopolitical scenario planning and may result in a preference for locally produced and procured goods or are (Czinkota, 2002).

Businesses, at a high level, need to implement a new distributed architecture for their critical operations. Guldemann's (2004) guiding principles, which can be downloaded here, demonstrate that a networked operation is significantly more robust than a centralised, standalone one. By simulating crucial business processes and interdependencies, we see that running the whole enterprise with multiple copies of everything is unnecessary and prohibitively expensive. When an organisation takes the time to plan for operational resilience, it learns exactly which departments and what kinds of resources will need to be strengthened. In most businesses, CRM takes precedence over outdoor improvements like landscaping. A comprehensive analysis of the company's vendors and service providers is required in order to fully grasp the interconnected nature of the entities involved. It is important to learn how these groups feel about the company from their point of view. Have contingency plans been developed to keep the relationship functioning during times of crisis, and do the organisations upon which the firm most heavily relies consider the relationship to be mission-critical?

When a company has solid backup procedures in place, it can protect its vital information and the expertise of its employees and the partners on whom it relies. Due to digital technology's ability to facilitate a comprehensive planning and testing phase, network-related contingencies are shown to be feasible. Establishing clear responsibilities in the event of an emergency and sharing contingency plans within the enterprise and with critical business partners can help mitigate some of the direct and indirect effects of terrorism and improve corporate sustainability.

Level of a business

When examining the new dangers faced by multinational corporations, it is crucial to study the organisational level at the forefront of risk management. Evidence from risk-return analyses demonstrates the interconnectedness of organisational decision making, risk, and performance (Wiseman and Bromiley, 1996). Subramanian and Lawrence (1999) show that political, economic, and geographical factors distinguish national locations. The corporation's diversification and success are critically dependent on factors in its operating environment. In contrast to the resources theory's emphasis on locational factors, prospect theory has provided a framework for understanding why underperforming firms may seek high risk, and why high-performing firms may pursue high return at relatively low risk. We found that in the tourism industry, less reputable businesses were more likely to steer their clients towards potentially dangerous destinations (Suder & Multon, 2004). However, when applied to the study of corporate strategy in incredibly prosperous fields like oil and diamond mining, this hypothesis cannot be generalised.

Applying the risk-return analysis to the industry and company in question is essential. The relationship between vulnerability and resistance varies greatly among individuals. In order to develop a resilience theory at the corporate level that responds to resource and prospect criteria, and that adds uncertainty to risk evaluations, the study of risks and uncertainties of the type experienced on September 11th calls for assessment and analysis that is flexible enough to reply to a variety of organisational models. One way that business conditions are described by the term "uncertainty," which has the dictionary definition of "a lack of information about future events so that alternatives and their outcomes are unpredictable," is as follows.

Conclusion

It's well aware that the available international data has the flaws of preliminary field reports. More empirical research is needed to advance the primarily conceptual perspectives developed in this article. Despite the obvious difficulty of this research, understanding corporate assets and risks is crucial to the efficient management of multinational corporations and the growth of internationalisation theory. Considering the dynamic nature of the global business environment, this paper was written with the intention of contributing to the existing body of knowledge. We propose conceptual frames that aid in analysing risk analysis and assessment in the wake of September 11 to demonstrate that a global risk-return evaluation is increasingly factoring into major strategic decisions like

internationalisation strategies, value chain decisions, and others. With disaster recovery and operational resilience in place, modern MNCs can quickly adapt to changing market conditions and seize new opportunities. Multinational corporations can use this setting to better prepare for threats to the global economy.

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