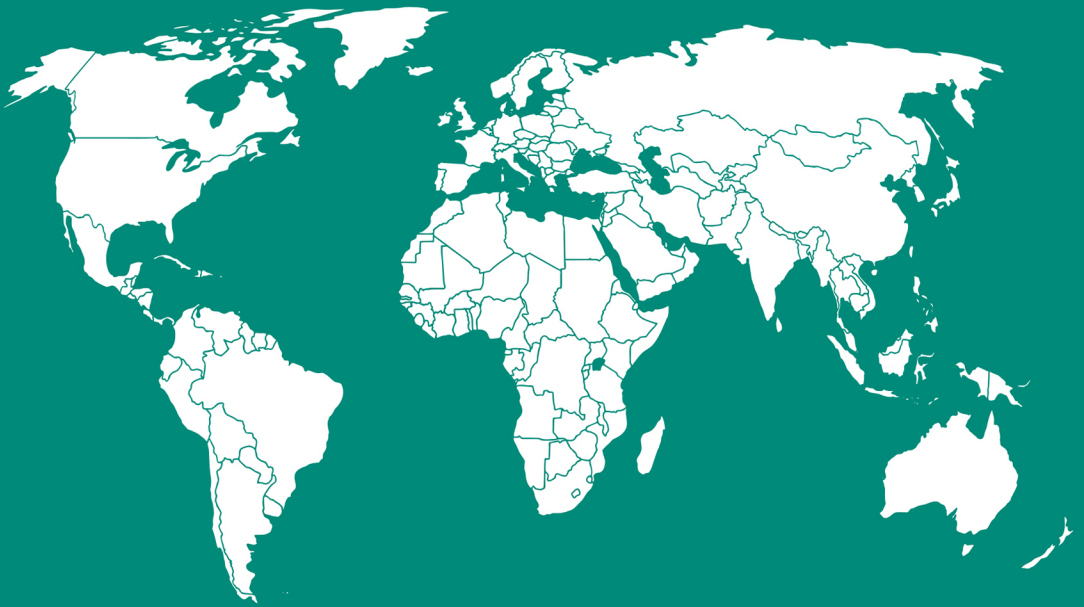


MULTINATIONAL ENTERPRISES AND TERRORISM

Naveed Elahi

Pervez N. Ghauri



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PREFACE

International business was the second casualty of 9/11 terrorist incident; the first was, of course, nearly 3,000 people who lost their lives on that sad day. The birth of global terrorism brought about palpable perils for businesses around the world. The multinational enterprises felt the jolts of the massive magnitude of this risk. The most important question for the MNEs was how to manage this risk to save huge investments and to avoid falls in revenues.

Albeit one can find considerable research on MNEs' business in emerging markets, little attention has been paid on the impact of terrorism on MNEs operating in emerging markets and how established MNEs should befittingly respond to this situation. Emerging markets are favorite destinations of large MNEs because of greater opportunities of better profitability there when compared to the developed markets, which are believed to have reached the saturation point. A large number of American and Western MNEs are operating in EMs for last many decades, and many more aspire to reap high dividends from these markets. But terrorism is one big uncertainty and risk that can have significant impacts on their businesses. The research on this issue has been scant and limited.

We aimed at discerning the impacts of terrorism on MNEs in emerging markets to foresee and forestall threats to their operations by formulating appropriate strategies. It strived to explore how direct and indirect impacts of terrorism pose serious operational and management challenges to the MNEs operating in EMs and how MNEs modify their strategies and structures to handle them. We carried out extensive research and explored the literature pertaining to it.

After identifying the gap in the literature, we conducted case studies of four established MNEs operating in the two EMs afflicted with terrorism. Pakistan and Turkey, being large EMs facing acute terrorism, were selected for the case studies. The managers of these MNEs and relevant governmental officials were interviewed for this purpose.

Terrorism is a glaring peculiarity in EMs, which has not been profoundly researched, specifically focusing on the role of the MNEs operating there. Institutional theory enabled us to explore and explain the approaches of MNEs embedded in country-specific institutional arrangements of the EMs that have a peculiar social system accentuated with prolonged existence of terrorism. It provided rich theoretical foundation for examining a wide range of critical issues and also allowed for theorizing at multiple levels of analysis, which was essential for MNE research (Djelic & Quack, 2003). It helped understand how MNEs responded to the institutional pressures caused by terrorism and why they adopted particular systems in particular emerging markets. We have been able to develop the scope of institutional theory by employing it to understand the impacts of terrorism, a phenomenon which is surreptitious in nature and remains elusive but creates upheaval in the system.

It has further developed the theory by considering terrorism as a distinctive political risk which creates distinct institutional factors requiring adjustments of strategies accordingly. The analysis of case studies depicted that, in such an environment, out of the three pillars of institutional factors, regulative factor gains more strength than normative and cognitive. Deliberate and sustained efforts of the MNEs to maintain good relations with the host governments and their diligent adherence to laws of the land confirmed this standpoint.

The study confirmed that the MNEs operating in EMs afflicted with terrorism thrived and continued their business which highlights a new and positive relationship between institutional uncertainty and entrepreneurship in EMs. Furthermore, this finding has abolished the myth that firms hesitate to operate in the countries with institutional distance or institutional uncertainty between them. Where there is a profit, there is a way. MNEs make strategic adjustments to cope well with formal and informal institutions to overcome the uncertainties.

The study will contribute toward deeper understanding of the impacts of terrorism on MNEs and will demonstrate how MNEs can respond to these impacts to continue successful operations. The management of these MNEs has to address multiple aspects of such threats. To begin with, the management must have deep and wide knowledge and understanding of the terrorist threats and the environment they operate in. The corporate manager must apprise the top management of the lethality of direct and indirect impacts of terrorism which can affect the employees, supply chain, customers, and even production.

The study proves that the managers of MNEs usually consider the indirect threat as more worrisome aspect because these are beyond control of the firm. But at times, the direct threat can be more damaging to the security and morale of the employees. For example, if extortion and kidnappings for ransom are rampant, the company cannot consider its employees, especially the top managers, safe.

At times, the top managers of MNE do not consider their firm as the direct target of terrorists; therefore, adequate security measures are not adopted. The studies show that in an environment of widespread terrorism, any firm can become a target, with or without a warning from the terrorists. The security manager ought to make arrangements at par with the security arrangements of a company directly under threat.

This book provides a unique understanding of the strategies and management of the MNEs operating in a challenging environment where terrorism upsets all systems, processes, and regulations. The prospective investors, the top management of the MNEs already operating in such places, and, to top all, the corporate security managers can greatly benefit from the scenarios, strategies, and solutions offered in this book.

Naveed Elahi and Pervez N. Ghauri

ABSTRACT

Terrorism exerts negative impacts on international business and multinational enterprises (MNEs). Emerging markets (EM), though fraught with terrorism-related perils, offer greater opportunities of profits to the MNEs than in the developed markets, which are believed to have reached the saturation point. The significance of this research is accentuated by the fact that despite perils, EMs are attractive destinations for MNEs. Therefore, it is imperative to discern the impacts of terrorism on MNEs in EMs to foresee and forestall threats to their operations by formulating appropriate strategies.

The purpose of this research is to explore how direct and indirect impacts of terrorism pose serious operational and management challenges to the MNEs operating in EMs and how MNEs modify their strategies and structures to handle them. Albeit one can find considerable research on MNEs' business in EMs, little attention has been paid on the impact of terrorism on MNEs operating in EMs and how established MNEs should befittingly respond to this situation. Literature review, carried out for this study, based on more than 130 research papers published in top-tier journals, indicates clear dearth of research on this topic.

This research intends to fill this gap by carrying out case studies of four established MNEs operating in the two EMs afflicted with terrorism. Pakistan and Turkey, being large EMs facing acute terrorist incidents, have been selected for the case studies. The managers of these MNEs and relevant governmental officials were interviewed for this purpose. Prior to it, a pilot case study was carried out to test the research questions and to remove distortions in interview questions and their understanding.

The study will contribute toward deeper understanding of impacts of terrorism on MNEs and will demonstrate how MNEs respond to these impacts to continue successful operations in the EMs.

Keywords: Terrorism; terrorism and management; multinational enterprises; emerging markets; terrorism and strategies; security and policy makers