

**Not gone away: how domestic terrorism impacts  
multinationals in foreign markets.**

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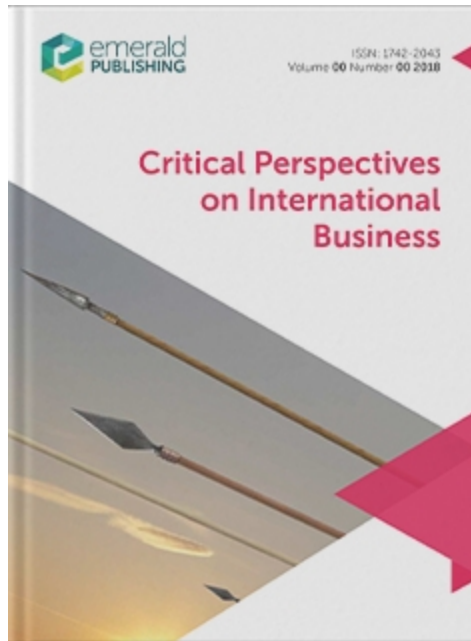
**Citation:**

OWENS, Martin and JOHNSON, Elizabeth (2024). Not gone away: how domestic terrorism impacts multinationals in foreign markets. Critical Perspectives on International Business. [Article]

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Journal:	<i>Critical Perspectives on International Business</i>
Manuscript ID	cpoib-09-2022-0100.R2
Manuscript Type:	Academic Paper
Keywords:	International business, Terrorism, State Terrorism, Domestic Terrorism, Political Violence

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# **Not gone away: how domestic terrorism impacts multinationals in foreign markets.**

## **1.0 Introduction**

Terrorism constitutes a key risk to market entry, operations and overall performance of international firms (e.g, Enderwick, 2001; Suder, 2004; Ajbar, 2004; Czinkota *et al.*, 2005, 2010; Li *et al.*, 2005; Steen *et al.*, 2006; Jain and Grosse, 2009; Elahi and Ghauri, 2020; Dimitrovia *et al.*, 2022; Abrahms *et al.*, 2023). Al-Qaeda's transnational terrorist attacks on 9/11, and subsequent pattern of al-Qaeda's attacks in various locations across the world strongly underpinned, in part, the early post 9/11 development of IB-terrorism research. Early conceptual studies unquestionably provided a rich theoretical foundation to explain why terrorism matters for IB (Suder, 2004; Czinkota *et al.*, 2004; Li *et al.*, 2005; Steen *et al.*, 2006). Much analysis, however, emphasised global or transnational terrorism, a particular type of terrorism affecting foreign firms (Suder, 2004; Czinkota *et al.*, 2004; Steen *et al.*, 2006). Indeed, Gabriele Suder and Michael Czinkota, prolific authors within IB-terrorism research, referred to this as "9/11 type" terrorism. However, such esteemed scholars, importantly recognise the diverse terrorism threat for MNCs in terms of terrorism type, motives and their methods (Suder, 2004; Czinkota *et al.*, 2005; Li *et al.*, 2005; Czinkota *et al.*, 2010),

Since then, other scholars have called for research to examine how domestic terrorism impacts MNEs (Bader *et al.*, 2019; Reade and Lee, 2012; Dimitrovia *et al.*, 2022). For reasons unclear, however, the following generation of international business (IB) researchers -with more data at hand than the previous - have been reluctant to answer this call to date. Yet according to international relation (IR) scholars, most non-state terrorism attacks are reported to be local based, confined to a national country or sub-region, and pursuing local agendas (Stohl, 2008; Berkebile, 2015; Gaibullov and Sandler, 2023).

Although domestic terrorism campaigns will vary in terms of intensity and methods (Gaibullov and Sandler, 2023), non-state domestic terrorism constitutes risk for international firms (Suder, 2004; Li *et al.*, 2005; Jain and Grosse, 2009; Bader *et al.*, 2019; Bader and Reade, 2021). Regular and protracted local terrorist campaigns, and related counter-terrorism violence, subjects MNEs to a challenging operational environment (Suder *et al.*, 2019; Bader *et al.* 2019), and a challenging governing relationship between HQ and subsidiaries. In addition, domestic terrorism likely subjects local stakeholders to an intensely harmful violent environment (Suder *et al.*, 2019; Elahi and Ghauri, 2020; Bader and Reade, 2021). Thus, MNEs can encounter heightened scrutiny and pressure from stakeholders to protect or enhance stakeholder welfare (Abrahms *et al.*, 2019; Al Amosh *et al.*, 2023). Managers not satisfying local stakeholder concerns could undermine MNE legitimacy and reputation (Gillford *et al.*, 2010; Phillips, 2003). Few IB terrorism studies, however, have examined the terrorism induced legitimacy pressures from stakeholders on MNEs (Czinkota *et al.*, 2010). Given the importance of stakeholder support and legitimacy to MNEs (Suchmann, 1995; Phillips, 2003), especially within hostile environments (Suder *et al.*, 2019; Dickmann *et al.*, 2019; Bellhoste and Nivet, 2021), this is an important omission.

Most terrorism is reported to be practiced by states (Jackson *et al.*, 2010; Jackson *et al.*, 2011). State terrorism remains one of the single greatest threats to human and societal security and well-being today (Jackson *et al.*, 2010, p. 1). According to empirical scholarship within international relationship (IR), and political science (PS), state terrorism benefits MNEs value chain activities (Maher, 2015). For examples, states have employed terrorism against local communities and activists to clear way for MNE extractive operations (Blakeley, 2009; Jackson *et al.*, 2011; Holden, 2011; Maher, 2022). Whilst IB scholarship has not denied the issue of state terrorism (Harvey, 1993; Czinkota *et al.*, 2004; Czinkota *et al.*, 2005), it has yet to examine the functional relationship between state terrorism and IB, as well as the outcomes of

state terrorism for MNEs and stakeholders. As IB scholarship remains concerns with the “grand challenges” of society and continues to stress the importance of socially responsible IB (Doh, 2005; Buckley *et al.*, 2017), we should explore this darker side of the IB-terrorism nexus.

Given the above research gaps, this paper conceptually examines the nature and impact of domestic terrorism for MNEs in foreign markets. Our conceptual examination involves two important dimensions. First, as domestic terrorism is perpetuated by both state and non-state actors (Jackson *et al.*, 2011), this study explains how non-state and state domestic terrorism impact MNEs in foreign markets. Second, while MNC can encounter domestic terrorism within home and/or host markets, our study centres on host market domestic terrorism to better understand how domestic terrorism impacts international business.

To build our conceptual arguments, and consistent with previous IB-terrorism research, we utilise terrorism scholarship situated within the fields of international business, international relations and political science. We draw on established IB theories - transaction cost economics, institutional and stakeholder theory to examine the impact of domestic terrorism on MNEs. Our conceptual study further includes critical terrorism studies, now a highly established sub-field within terrorism studies (see Jackson *et al.*, 2011). This cross-fertilisation between disciplines may be valuable to provide a comprehensive understanding to how terrorism impacts MNCs today (Suder and Czinkota, 2005).

This study can contribute to IB-terrorism research in the following ways. First, extant terrorism research within IB has largely focused on how terrorism per se impacts firms in foreign markets or has focused on high impact non-state transnational terrorism (Czinkota *et al.*, 2005, 2010; Li *et al.*, 2005; Steen *et al.*, 2006). Responding to direct calls for more research into domestic terrorism and IB (Reade *et al.*, 2012; Bader *et al.*, 2019), our study uniquely examines the MNE operational, governance and socio-political (legitimacy) costs from non-state domestic terrorism in foreign markets. Given that domestic terrorism is the most common

form of non-state terrorism today, our study should be highly valuable for MNE managers seeking to manage the threat of contemporary terrorism.

Second, although a small number of IB studies have identified state terrorism (Harvey, 1993; Czinkota *et al.*, 2005), prior research does not closely examine the relationship between state terrorism and foreign firms. Adding to the literature, our study provides insights into how domestic state terrorism intersects with MNEs in foreign markets. Given the propensity for MNEs to be implicated in human right violations through links with state terrorism (Maher, 2015), our research has significant value for MNE managers, governments and local communities. Furthermore, while research within IR and PS identifies some of the functional contributions of state terrorism for inward FDI (e.g., Hristov, 2009; Maher, 2015; Holden, 2011; McKeown, 2011; Jackson et al, 2022), our study moves beyond this literature when exploring how MNEs are complicit with state terrorism, and how state terrorism adversely impacts MNEs and stakeholders. This contribution further widens and strengthens the relevance of IB-terrorism research, especially for victims of state terrorism, often citizens and local communities (Holden, 2011).

The paper is structured as follows:

- First is a brief outline of concepts terrorism and domestic terrorism.
- Secondly, we discuss the two forms of domestic terrorism: non-state and state.
- Thirdly, a discussion on the impact of domestic terrorism on MNEs in foreign markets.
- Fourthly, a discussion of the analysis and potential avenues for future research is provided.
- Finally, a conclusion and implications for managerial practice and society.

## 2.0 CONCEPTUAL BACKGROUND

*Defining terrorism and domestic terrorism:*

Terrorism is broadly defined as “the premediated use, or threat of extra-normal violence by state and non-state actors that is employed to garner a political, economic, religious or ideological objective through the intimidation of a large audience” (Sandler, 2003, p. 1). To pursue these motives, terrorism seeks to instil fear, to intimidates a target audience that might include entire country, a national government, a local community, public opinion, and combatants (Richards, 2014).

MNCs face different terrorist actors in terms of motive and methods (Suder, 2005; Czinkota *et al.*, 2005). MNCs will face transnational or international terrorism which perpetrates attacks in a variety of countries (e.g., Jain and Grosse, 2009; Czinkota *et al.*, 2010). On the other hand, sometimes known as local or internal terrorism, domestic terrorism is when the victims and perpetrators are citizens of the venue country, where the attack occurs (Sandler, 2015). In its domestic form, the prevailing motivations of the terrorist group centre on a political goal pursued through fear, coercion, or intimidation of the target or population; the impact is local. While domestic terrorism occurs within both developed and developing economies, much domestic terrorism occurs within the developing and emerging economies of the Middle East, Asia, and Africa, and are characterized by political instability, institutional voids, or socio-ethnic violence (Elahi and Ghauri, 2020; Bader and Reade, 2021).

## 2.1 FORMS OF DOMESTIC TERRORISM: NON-STATE AND STATE TERRORISM

In this section, we detail two forms of domestic terrorism impacting MNCs in foreign markets: non-state domestic terrorism, and state domestic terrorism. We explain each in turn.

*Non-state Domestic Terrorism:* Non-state domestic terrorism is described as a cycle of violence and political conflict between extreme factions or sub-national groups, and the state (Boyd, 2016). Examples of domestic terrorism include the Moro terrorism in the Philippines, the LTTE or Tamil Tiger separatist movement in Sri Lanka, the Basque ETA movement in

Spain, the New IRA in Northern Ireland. Unlike transnational terrorism, domestic terrorism often imposes violence over many years to individuals, firms, institutions and society within a national and sub-national geographical area, such as entire country or a sub-region of a country (Savitch, 2005; Enders *et al.*, 2013). Non-state domestic terrorism typically co-exists and interplays with other forms of violence and other violent actors within a complex and dynamic civil conflict (Sandler, 2015). Non-state domestic terrorists and local communities typically face violence from counterinsurgency actors such as the state's military, and police forces, or from pro-state paramilitaries (English, 2006). Furthermore, local citizens and firms within civil conflicts are often exposed to inter-communal violence or socio-ethnic conflict (Grenshaw, 1981; Gurr, 2000; Ghatak, 2016).

While global terrorism can cause a serious exogenous global shock (Steen *et al.*, 2006), not all terrorism events have systemic effects on the global economy. Unlike al-Qaeda's attack on 9/11, domestic terrorism rarely leads to a global exogenous shock. Domestic terrorism more likely yields disruptions at national, sub-national and local levels (Piazza, 2009; Enders *et al.*, 2013). Domestic terrorists are usually not seeking many deaths. Rather domestic terrorists usually seek regime or territorial change within a national state (Sanchez-Cuenca and De La Calle, 2009). And domestic non-state terrorist may carry out nation-wide campaigns or may be localised – pertaining to regions and cities within a national market (Savitch, 2005). Piazza (2009), in the context of India, explains how the states of India are characterized by markedly different levels of terrorist activity, with states like Kashmir and Jammu alone experiencing more domestic terrorist incidents than states like Arunchal Pradesh or Sikkim experiencing no terrorism at all.

Non-state domestic terrorist groups vary considerably in the nature and intensity of campaigns (Piazza, 2009; Boyd, 2016). Low intensity domestic terrorism can yield a rather mundane effect of national economies (McIntyre and Travis, 2004) and may not deter MNC



entry (Witt *et al.*, 2017). Not all non-state terrorist groups have the intent or capabilities for sustained terrorist violence and destruction. For example, MNEs entering Germany, or the United States will be confronted with domestic right-wing terrorism (RWT) (Perliger, 2012), a lower intensity form of terrorist violence for MNEs. Although RWT ideology fundamentally opposes the openness of governments to trade and investment between nations, the movement of capital and labour, RWT does not consistently target business assets or government infrastructure, offering less economic damage. While low intensity terrorism may not deter MNE market entry, it may indicate racist extremism, ethnic conflict, institutional discrimination, for example, which may challenge entry MNC managers at operational level.

High intensity non-state domestic terrorism typically involves frequent episodes of serious terrorist incidents within the host market over a prolonged period. Domestic nationalist terrorist organizations, for example, such as the PIRA and ETA attacked and killed repeatedly over decades with the aim of breaking the will of the state (Sanchez-Cunca, 2007). This usually provokes counter-terrorism violence from the state and/or pro-state paramilitaries (Choi and Piazza, 2016). This political violence can extol an overall destructive impact of economic development (Greenbaum *et al.*, 2007; Enders *et al.*, 2013). Protracted conflict between non-state and state actors can harm business and consumer confidence, reduce investment and can contribute to high levels of structural violence such as low educational attainment, and poverty (Savitch, 2005 Choi and Piazza, 2016).

*Domestic state terrorism:* Before detailing domestic state terrorism, we must define state terrorism. State terrorism is the intentional use or threat of violence by state agents or their proxies against individuals or groups for the purpose of intimidating or frightening a broader audience (Jackson *et al.*, 2009). As with non-state terrorists, the state expects the terrorised witness to alter their behaviour (Blakeley and Raphael, 2016).

States employ terrorism for a range of political and economic goals - population control, expulsion, ethnic cleansing, intimidation or deterrence of foreign adversaries (Stohl, 2006; Jackson *et al.*, 2011), quell resistance to economic policies and initiatives, secure access to resources and maintaining economic advantage for corporate elites (Jackson *et al.*, 2011). As a result of state terrorism, repression and violence, millions of people in many markets that MNEs trade and invest within have been victims of state torture and intimidation in places such as Chile, Argentina, Bosnia, Sudan, Uganda and Rwanda, to name a few (Stohl, 2006). According to Stohl (2008), the number of victims produced by state terror is on a scale exponentially larger than that of insurgent terrorists.

Domestic state terrorism occurs within the territory of a state against internal opponents. International state terrorism, however, involves state terroristic actions outside of the state's borders against either state or non-state opponents (Jackson *et al.*, 2011). Domestic state terrorism (DST) can be divided into direct, and indirect (Jackson *et al.*, 2011, pp. 191-192), DST involves the use of violence by state actors (e.g., army). For example, state military can terrorise individuals protesting against FDI projects (Stokes, 2005; Raphael, 2010). Indirect state terrorism (IST) employs proxy actors such as pro-state paramilitaries and private security contractors to implement the violence. In some countries, paramilitary forces are the main perpetrators of state terrorism (Maher and Thomson, 2011; McKeown, 2011). Maher's (2015) study in the context of Columbia's natural resource sector shows how states and pro-state paramilitaries, what he labels "pro-business terrorism", works to protect the interests of MNCs, states, large landowners and other actors. MNCs in developing markets such as Columbia and Sudan are operating in resource intensive geographical areas that are often vulnerable to attacks from local guerrilla forces and insurgents. In order to control these areas, states use pro-state paramilitaries to implement extra-judicial killings and forced displacement towards these ends (Hristov, 2009; Maher and Thomson, 2011).

When state terrorism facilitates MNEs value chain activities, such as land purchase, MNCs are complicit in the terrorism and related human right violations. This is consistent with Weltstein's (2010, p. 34) argument that a large part of MNC human right violations is not committed by the MNC themselves but by a third party which relies on the direct and indirect support of the MNC. Drawing on Welstein's (2010) useful corporate complicity framework, we briefly identify three ways MNEs are complicit with domestic state terrorism: direct, indirect, and beneficial.

*Direct complicity:* This refers to MNEs requesting or directly involving themselves in the state terrorism. MNCs can request the state terrorism. For example, the Swedish MNE, Lundin Energy allegedly requested the Sudanese government to secure a potential oilfield, knowing this would mean controlling the area through force and terror (Reuters November 11<sup>th</sup> 2021). Furthermore, the MNE can contribute directly to the violence itself. This involves MNCs providing the facilities, information and materials to prosecute the state terrorism (Pegg, 1999). For example, MNE internal security may identify community members or activists for state targeting.

*Indirect complicity:* This involves MNEs either provoking the state's willingness to employ state terrorism within the state's borders, or unintentionally supporting the state's ability to carry out the terrorism. In developing countries with weak democratic institutions, MNEs often bring local populations into direct confrontation with state security forces or pro-state paramilitary groups (Pegg, 1999; Vadlamannati *et al.*, 2021). MNE actions such as environmental pollution or refusing to pay compensation for such damages, for example, can lead to local community resistance and social protests especially around extractive operational sites (Gillford *et al.*, 2010), which in turn, can evoke state terrorism and other means of violence to dispel the protest (Pegg, 1999).

Unlike non-state terrorism, state terrorism does not seek visibility. As Mozaffari (1988) argued, the state usually does it secretly and clandestinely, and never seeks to justify its terrorism. State denial of terrorism can be partly motivated to protect the state's economic plan and their relationship with local and foreign companies (Jackson *et al.*, 2010). This lack of state accountability, in part, may cause new MNE entrants to be unaware of how their expected or actual presence is facilitating state terrorism. MNEs may finance violent state security forces through taxation, such indirect complicity might be the result of poor due diligence and corporate governance (Owens, 2022).

*Beneficial complicity:* Although some MNEs may not have sanctioned or indirectly supported state terrorism, MNEs can remain complicit if benefiting from state terrorism (Welstein, 2010). State terrorism, especially in the emerging markets of Asia, Latin America and Africa have gained Western MNEs entry into markets and access to resources (Blakeley, 2007; Maher and Thomson, 2011; McKeown, 2011). Domestic state terrorism can yield MNEs significant economic cost advantages (Maher, 2015). State terrorism can generate MNEs locational advantages such as providing investment land, access to natural resources and overcoming resistance to local community resistance (Maher, 2015; Srikanthia, 2016). State terrorism clears communities from operational sites and establishing territorial control over areas to securitise MNC operations (Maher, 2015 and Maher and Thomson, 2011). Within the Sudan oil sector, for example, government forces and government supported militias terrorised civilians and communities, and displaced hundreds and thousands of South Sudanese to facilitate the exploration and exploitation of oil by foreign companies (Christian Aid, 2001). Furthermore, systematic and organised violence against trade union movement and human right groups (Maher and Thomson, 2011) helps maintain favourable labour market regulation, reduce labour costs, and maintain low unionisation. Although some MNEs avoid such countries

(Li and Resnick, 2003), other MNEs will capitalise on these locational advantages (Cuervo-Cazurra *et al.*, 2021).

Having explained our conceptualisation of domestic terrorism, the next section examines the costs and risks of state and non-state domestic terrorism on MNEs in foreign markets. In terms of non-state domestic terrorism, we hereon confine our discussion to high intensity non-state domestic terrorism - likely more significant for foreign firms.

## 2.2 THE COSTS AND RISKS OF DOMESTIC STATE AND NON-STATE TERRORISM ON MULTINATIONALS IN FOREIGN MARKETS

This section examines the firm-level costs and risks of high intensity domestic terrorism on MNEs. Our analysis remains sensitive to the features of domestic terrorism previously discussed. Extending the limited literature on domestic terrorism with IB (e.g, Harvey, 1993; Sandler, 2003; Suder, 2004; Li et al, 2005; Gaibullov and Sandler, 2019), this section explains how domestic terrorism raises operating, governance and socio-political costs for MNEs. We discuss each in turn.

### *Operational and governance costs of domestic terrorism for MNEs*

Transaction cost and internalization theories of multinational enterprises have emphasised the importance of costs of operation and governance for MNEs in foreign markets (Buckley and Casson, 1976; Williamson, 1989).

MNEs should expect high operating costs when doing business in non-state domestic terrorism environments (Elahi and Ghauri, 2020). High intensity non-state domestic terrorism typically involves regular attacks and violence over a prolong period, involving state targets, civilians or public infrastructure, and related counter-terrorism violence (Greenbaum *et al.*, 2007; Choi and Piazza, 2016). As such, this repeated violence and high civil unrest can lead to

high operating costs for MNE in the areas of supply chain and human resources. Repeated political violence and counter-terrorism security operations can cause disruptions to value chain partners such as retailers, wholesalers and distributors (Czinkota et al, 2005; Zeneli et al., 2018; Bader et al., 2019; Elahi and Ghauri, 2020). For example, attacks on infrastructure, or industrial parks can cause disruptions to local suppliers, leading to increased cost, and time delay (Czinkota et al., 2005; Wernick and Glinow, 2012). Eco-terrorists, such as the Animal Liberation Front, can specifically target the supply infrastructure of industries, especially the agriculture industry which supplies fast food retailers such as McDonalds (Loadenthal, 2022). As a result, MNEs may have to absorb the search and due diligence costs when finding alternative suppliers (Oh and Oetzel, 2017).

Frequent non-state terrorism attacks and counter-terrorism responses, especially near the operations of the MNE, likely subject the MNEs expatriates to significant security threat and hardship (Bader and Berg, 2013; Bader and Schuster, 2015; DeClercq et al., 2017; Suder et al., 2019; Harvey et al., 2019). For instance, Suder et al's (2019) empirical study of expatriates in Afghanistan found how expatriates were subjected to an extreme level of personal security and limited personal freedom. MNEs may have to compensate staff with high salaries to work in such areas, and even relocate staff away from the violence (Dickmann et al., 2019). For example, Nestle, as a response to Boko's Haram's continual violence in Nigeria, temporarily withdrew sales staff from for a week (BusinessDay, 2023). The cost of expatriate compensation within terrorist locations can be considerable (Bader and Berg, 2013). Sometimes known as "danger pay", this can be up to 900% higher than the wages of local employees in some developing markets. Such disparities can provoke local armed groups to violently address economic grievances, exemplified by the Niger Delta Militants in Nigeria (Guardian, 2016; George et al., 2012; Peel, 2005; Nwogwugwu, 2012).

In addition to the local terrorist's violence, MNEs operating within domestic terrorism environments often must manage inter-communal violence or ethnic conflict (Reade and Lee, 2016). MNE employees of an ethnic or religious group can be directly killed, attacked or raped by terrorists (Slim, 2012). For example, at Unilever's tea plantation in Kericho in Kenya, hundreds of workers were attacked, 56 women were raped, and seven others were killed in ethnic related violence (Fick, 2018). Ethno-nationalist domestic terrorists can target specific ethnic groups (Gurr, 2000), which mean employees living under this threat, can suffer from extreme stress and anxiety (Junaid *et al.*, 2018). This affects employee performance through absenteeism and turnover (De Clerq *et al.*, 2017) which can require organisational support initiatives (Reade, 2009; Reade and Lee, 2012; Junaid *et al.*, 2018).

Domestic terrorism can generate high governance costs for MNEs relating to intra-organizational coordination. Drawing on transaction cost economics (TCE), we consider governance costs *ex post* – as costs related to the running of an intra-organizational relationship (Williamson, 1981; Tomassen *et al.*, 2012). Scholars have classified *ex post* governance costs into three main types: bargaining costs, monitoring costs, and information costs (Benito and Tomassen, 2010).

*Bargaining costs* are the result of renegotiations and changes in existing agreements between MNC headquarters (HQ) and the subsidiary in the domestic terrorism environment (Tomassen *et al.*, 2012). With non-state domestic terrorism, HQ managers may experience much bargaining (and related time and resources) with subsidiary managers over existing corporate policies, systems and procedures. Subsidiary managers, often host country nationals (HCNs), may possess more knowledge on the local political conflict, and thus, can exercise some degree of bargaining power over HQ managers (Schotter and Beamish, 2011). For example, local managers superior knowledge of the local political geography may allow managers to challenge HQ's decision to distribute or promote products in certain geographical



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3 areas. As a result of Boko Haram's violence in Nigeria, Nestle reported how the terrorists  
4 prevented their teams accessing customers and retailers in the Northern regions of Nigeria  
5 (BusinessDay, 2023). Furthermore, knowledge sharing can be adversely impacted. When  
6 subsidiary managers are distracted by the regular terrorism and counter-terrorism incidents,  
7 and related need to protect assets and people, they may be less motivated to share performance  
8 and market knowledge with HQ managers. This may demand some bargaining between HQ  
9 and subsidiary managers (Tomassen *et al.*, 2012).

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*Monitoring costs* arise when control measures are introduced to assure contractual agreement and avoidance of shirking behaviour (Tomassen *et al.*, 2012). In the context of non-state domestic terrorism, MNEs may experience high monitoring costs to ensure the subsidiary is complying with the MNE's internal security procedures, and to ensure compliance with new government regulation that emerged as result of the terrorism (Czinkota *et al.*, 2010). Given the frequent attacks of non-state domestic terrorism (Enders *et al.*, 2013). HQ staff may have to directly observe subsidiary ongoing operations - via frequent personal visits and formalised control mechanisms - to ensure security measures are adequate, and to signal commitment to subsidiary management teams, and all employees, irrespective of political, ethnic or religious identity (Oetzel *et al.*, 2007).

With domestic state terrorism, the risk of complicity with this state violence may require high HQ monitoring, especially when the government has previously used excessive force during confrontation with local communities and activists. HQ monitoring aims to avoid complicity with state terrorism (Schrempf-Stirling, 2017), as well as to avoid the need to invest considerably in repairing the corporate reputation (Gillford *et al.*, 2010). MNEs implicated in state terrorism could also be subjected to an expensive litigation process (Schrempf-Stirling and Wettstein, 2017) and the need to introduce new governing processes to avoid future complicity, thereby raising monitoring costs.



*Information costs* arise from the need to acquire and interpret information, especially to allow HQs to react to external uncertainty (Tomassen *et al.*, 2012). Because the state actively conceals or denies state terrorism, collecting information on state terrorism incidents can be difficult (Blakeley, 2007; p. 36). Those MNEs seeking to avoid complicity with domestic state terrorism may expend time and resource to discern whether their operations are supporting, benefiting from, or likely to provoke state terrorism. This means good due diligence across the value chain, to ensure functions such as security or land purchase, avoid links with state terrorism and other means of state repression.

As ongoing non-state terrorism presents external uncertainty for MNEs (Czinkota *et al.*, 2010), MNEs with better information can adjust accordingly to the political environment and improve performance (Heinz and Delois, 2004). Unlike high profile high impact non-state terrorism events such as those on 9/11, non-state local terrorism can garner less attention and less publicly available analysis (Gaibullov and Sandler, 2023). Furthermore, MNEs can initially lack relationships with information-rich local actors such as non-government organisations and community leaders (Oh *et al.*, 2020). Consequently, HQ managers may avail of government and media sources. But host governments and media can be an unreliable information source as they can misrepresent and exaggerate the threat of terrorism in the host market (Jackson, 2007). Critical terrorism scholars have argued that host states and the media construct and relay dominant narratives on the political instability to legitimise regulation and counter-terrorism measures (Jackson, 2007; Jackson, 2016; Vadeon, 2010). For example, in the context of local attacks by ethno-nationalist domestic terrorists in India, the West can be falsely construed as targets from their attacks. Reports of these attacks will focus on the symbolic nature of the attacks (luxury hotels-Western culture) and the foreign nationals killed even though the number of non-westerns killed vastly out-numbers the Western victims (Barnard-Wills and Moore, 2010). Thus, non-state domestic terrorism can sometimes be

misrepresented, to fit into a wider global narrative and related security agenda. As this can exaggerate the terrorist threat level and may cause MNEs to internalise the state or media discourse, MNEs may struggle to effectively adapt to the local terrorist environment.

In sum, MNEs will experience high operating and governance costs when operating in domestic terrorism environments. However, domestic terrorism will further subject the MNE to socio-political risks or legitimacy pressures.

### *Socio-political risks of domestic terrorism on MNEs*

Broader IB scholarship has argued MNEs face a demanding socio-political context within politically volatile markets (Oetzel *et al.*, 2007 Darendeli *et al.*, 2021; Belhoist and Nivet, 2021). MNEs operating in countries associated with domestic terrorism or excessive state violence that kills many citizens risks societal condemnation of the MNE, and possibly their organisational legitimacy and reputational damage (Elahi and Ghauri, 2020; Hogetoorn and Gerritse, 2021). Legitimacy is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p.574). Legitimacy is a major concern for MNEs, as without it, MNEs struggle to survive, grow and acquire resources (Suchman, 1995).

Although MNEs may experience delegitimization as a result (Weltstein, 2010; Nieri and Giuliani, 2018), countervailing forces may mitigate against such delegitimization. Civil society, NGOs and media institutions typically influences MNE behaviour by questioning whether their practices are ethical (Cornwell *et al.*, 2023). However, in developing markets, weak institutions and state violence can sometimes repress civil society’s power to recognise state terrorism’s link to private sector business interests.

Nevertheless, both state and non-state domestic terrorism should raise *local* legitimacy challenges for MNEs in host markets. Given the often intense and prolong violent milieu within

domestic terrorist afflicted markets, local stakeholder welfare can be severely constrained (Suder *et al.*, 2019; Elahi and Ghauri, 2020), which in turn, generates local legitimacy pressures for on MNEs (Phillips, 2003). MNEs, to succeed in domestic terrorist environments, must remain sensitive to the expectations and welfare of local stakeholders to attain legitimacy (Gillford and Kestler, 2008; Reimann *et al.*, 2012).

Drawing on Phillips (2003), MNEs need to manage two types of local stakeholders in domestic terrorist environments: normative and derivative stakeholders. *Normative stakeholders* are the stakeholders MNEs have a moral obligation to protect such as customers. For space constraints, our analysis focuses on two major normative local stakeholders: local employees and local communities. *Derivative stakeholders* “are those groups whose actions and claims must be accounted for by managers due to their potential effects upon the organization and its normative stakeholders” (Phillips, 2003). Examples of derivative stakeholders are terrorist groups (Belhoste and Nivet, 2021), and media organisations. MNC attention to these groups is legitimate as “this legitimacy is derived from their ability to affect the organization and its normative stakeholders” (Phillips, 2003).

Local normative stakeholders, notably, employees and local communities, are sources of legitimacy pressures for MNEs when operating in domestic terrorist environments (Harvey *et al.*, 2019). Although expatriates suffer when exposed to terrorist violence (Bader and Berg, 2013; Bader and Schuster, 2015; DeClercq *et al.*, 2017; Harvey *et al.*, 2019; Junaid *et al.*, 2018; Suder *et al.*, 2019), MNEs can localise expatriate roles within terrorist environments (Dickmann *et al.*, 2020) to minimise costs of expatriation, often high in dangerous locations (Doherty and Dickmann, 2012). Furthermore, local managers bring context specific knowledge to the subsidiary in hostile environments and enjoy more freedom to move around than expatriate managers (Dickmann *et al.*, 2019:1858).

Given the typical long duration of non-state domestic terrorism campaigns, HCNs and local employees are vulnerable to mental health problems and high stress following exposure to prolonged violence (Suder *et al.*, 2019; Dickmann *et al.*, 2019; Elahi and Ghauri, 2020), in addition to stress associated with adjusting to a new corporate cultural environment (Bader and Schuster, 2015). Unlike expatriates, HCNs may belong to the same ethnic and political group of the terrorist group. HCNs may be vulnerable to some level of stigmatisation and suspicion from parent company managers. For example, 9/11 made the daily experience of many Muslim managers and citizens in the US more difficult, as polarization, exclusion, and suspicion grew in the wake of the terrorist violence (Harvey *et al.*, 2005; English, 2016). In the context of PIRA and Islamic terrorism in England, we see a similar effect, on what Hickman *et al.*, (2012) call the development of “suspect communities”. Employees part of a suspect community can develop stress and other feelings of resentment, anger and isolation, and at the extreme, serves to disidentify them as citizens and exclude them from the social body (Erlenbusch-Anderson, 2018, p. 7).

As a derivative stakeholder to the MNE, the media can heighten the adverse effects of non-state domestic terrorism on local employees, as well as on local communities. Media sensationalism on terrorist events, including using highly emotive language and violent images, can amplify the perceived terrorism threat and fear levels (McIntyre and Travis, 2004; Czinkota *et al.*, 2005). Such media framings of terrorism events and terrorist actors can exact a heavy psychological toll on employees, as well as local communities, through distress, shock and fear (Shoshani and Slone, 2008). Media coverage has the capacity to mispresent specific sections of the MNC’s community such as ethnic minorities. Thus, certain employees and local communities of the MNE can be socially stigmatised and delegitimized by society which spills over into the MNC workplace (Harvey *et al.*, 2005). For this reason, MNC parent-level

senior managers may marginalise host country managers belonging to an ethnic group associated or represented by the terrorist group.

Taking this further, powerful or power-seeking actors within MNCs may exploit this situation as a route to social power, to dominate HCNs or employees belonging to this community. HCNs feeling pressures from their own social and political identity because of the terrorism narrative within the MNC and broader society may practice behaviours to protect themselves, which subordinate themselves without fully understanding their own domination because they understand the situation to be normal, legal and legitimate (Bourdieu, 2001, p. 170). As Bourdieu (1991) states: "Symbolic violence can only be exercised... in a form which results in its misrecognition... which results in its recognition as legitimate" (p. 140). This unconscious complicity between dominated and dominator is the defining characteristic of symbolic violence. As a result, HCNs may subject themselves to copious restrictions which diminish their freedoms (e.g., refinement of accent, suppression of culture and political views) that can lead to feelings of repression and isolation. Consequently, these negative feelings could affect their innate motivation and desire to work for the MNE (Lee *et al.*, 2017), potentially leading to HCN turnover and negative perceptions of the MNE.

Domestic state terrorism should further adversely impact MNE legitimacy among their HCNs and other employees. Corporate misconduct affects stakeholders' judgments of both the capability and character of the firm (Mishina *et al.*, 2012; Sampath *et al.*, 2016). Thus, when foreign subsidiaries are complicit with domestic state terrorism, expatriates and HCNs working within subsidiaries may lower their perceptions of the MNE. Managers may feel guilt and shame when complicit in violence directed at local communities and citizens. In response, they may leave the company, and delegitimise the MNE through negative word of mouth. This reputational damage can impact the MNE's ability to recruit local talent (Sampath *et al.*, 2018).

and undermines the MNEs purported commitments to the local labour market and the host government.

Domestic terrorism also strains the relationship between MNE and the local community within the host market (Banerjee, 2018). Local communities are important local actors to MNEs as they provide MNEs with local legitimacy, support, resources and patronage, especially in hostile environments (Calvano, 2008; Dickmann *et al.*, 2019; Suder *et al.*, 2019). Firstly, domestic state terrorism can damage relations between MNEs and local communities (Pegg, 1999; Maher and Thompson, 2011). State terror can inflict enormous fear and suffering on community leaders and members, including the destruction of culturally significant sites, and the displacement of communities to facilitate MNE market access and resources (Srikantia, 2016; Banerjee, 2018). For example, to facilitate a Dutch infrastructure investment near Manila, the Philippian government displaced hundreds of families after hundreds of armed soldiers went door to door leaving community members terrified (Global witness, 2023). Yet violence can often mobilise local communities to establish resistance movements against MNEs and FDI projects (Gillford *et al.*, 2010).

Secondly, MNEs face legitimacy pressures from local communities when operating their business in markets afflicted by domestic terrorism (Li *et al.*, 2015). Given the intense and prolonged series of attacks associated with non-state high intensity terrorist campaigns, local communities can live under high levels of structural violence (e.g., low incomes, poor educational attainment) as a result of prolonged threat and smaller scale attacks over years (Greenbaum *et al.*, 2007), or for decades in the context of Northern Ireland and the Israel-Palestine conflict. This deters local entrepreneurship and foreign investment, generates economic insecurity, unemployment (Greenbaum *et al.*, 2007) and exacerbate prevailing economic inequalities that may have resulted in the terrorism grievance (Enderwick, 2001; Jalata, 2010; Frazer and Hutchings, 2020). Local communities either directly, or indirectly,

through non-governmental organisations or local governments (Reimann *et al.*, 2012), can expect MNEs to help alleviate social issues such as poor living conditions and unemployment. In response, MNEs can enhance community economic welfare by creating new workplaces, hiring local workers to reduce unemployment or investing in local infrastructure (Salli and Schnyder, 2019). When MNEs enhance their legitimacy among the local community (Suchmann, 1995; Calvano, 2008), this can spill-over into increased employee legitimacy. Local employees can value those foreign firms that improve economic and social conditions within the wider community (Reimann *et al.*, 2012).

In sum, domestic terrorism yields a challenging socio-political context for corporate decision-makers. But another aspect of this challenging socio-political context involves MNEs having to contact or negotiate with the domestic terrorist group (Jain and Gross, 2006). Stakeholder theory argues firms should further manage derivative stakeholders (e.g., terrorist groups) to protect the firm's moral obligations to normative stakeholders (Phillips, 2003). Non-state domestic terrorist groups can exercise coercive and moral power over MNE stakeholders such as local employees and communities (Phillips, 2004; Bellhoste and Nivet, 2021). Given how non-state terrorism groups are often part of a wider political movement seeking political change (English, 2006), such terrorist groups can be expected to have other identities and roles within the host market. Although terrorists are often reviled within the host market, they can be passively or actively supported by actors within and outside the MNE's network. As such, MNEs may have to offer distinct managerial attention to the domestic terrorist groups to protect normative stakeholders (Elahi and Ghauri, 2020; Bellhoste and Nivet, 2021). This can involve different approaches. For example, MNEs may adopt an antagonistic approach to the non-state terrorist group such as working with local security services (Wernick and Glinow, 2012), or lobbying government for a more effective counter-terrorism response. These measures risk reprisal from the terrorist group that could harm the firm's managers and employees.



Alternatively, MNEs may engage the terrorists directly, or indirectly, via the terrorist's political organisation, or local community representatives (Elahi and Ghauri, 2020; Bellhoste and Nivet, 2021). This may protect employees and secure the release of kidnapping victims. Beyond these needs, MNEs may engage the local terrorist group to help address the group's grievances, or to increase the role of politics in the conflict (Jain and Gross, 2006; Getz and Oetzel, 2010).

### 3.0 Discussion, implications and future research

This study examined the impact of domestic terrorism on MNEs in foreign markets. Much IB conceptual research on terrorism has been based on high impact non-state transnational terrorism (Suder, 2004; Suder and Czinkota, 2005; Li *et al.*, 2005; Steen *et al.*, 2006; Harvey *et al.*, 2005; Liesch *et al.*, 2006; Czinkota *et al.*, 2010). Although domestic terrorism is conceptually distinct from non-state transnational terrorism (Sandler, 2003; Li *et al.*, 2005; Bader *et al.*, 2019; Powers and Choi, 2012), how domestic or local terrorism impacts MNEs in host markets has been surprisingly understudied (Li *et al.*, 2005; Bader *et al.*, 2019). Extending the literature and answering Bader *et al.*'s (2019, p.143) specific call for research on domestic terrorism within IB, this study examined the nature and impact of state and non-state domestic terrorism for MNEs. This is the first study to provide a detailed examination on the relationship between domestic terrorism and MNEs in foreign markets.

Our framing of high and low intensity non-state domestic terrorism argues that some non-state domestic terrorism may impose minimal risk to MNEs. This is consistent with Power's and Choi's (2012) argument that not all terrorism is equally determinantal to business activity. Some domestic terror groups, either because of limited capabilities, lack of widespread public support, or the terrorist's objectives, are not seriously undermining national or regional economic and political stability. Thus, contrary to established wisdom, terrorism within foreign markets is not always high impact or deliberately provocative and dramatic.



Our study argues that high intensity non-state domestic terrorism imposes risk, and host market political instability for MNEs (Sandler, 2003; Li *et al.*, 2015; Abadie & Gardeazabal, 2008; Johnson, 2019). Repeated attacks within the country, region or city can expose the MNE to significant operating, governance and socio-political costs. While domestic terrorist groups usually avoid the spectacular and high impact attacks of some transnational terrorist groups (Li *et al.*, 2005; Bader *et al.*, 2019), the regularity of the terrorist and counter-terrorist violence and the general civil unrest can subject MNEs to an intense host market violent milieu – violence from the terrorists, the terrorist's protagonists (e.g., state) and violence between ethnic groups.

Adopting a TCE logic (Williamson, 1981), our study suggests MNEs operating in local terrorism afflicted markets via FDI may lead to initially high *ex post* bargaining, information and monitoring costs. Given the regularity of the violence, civil disorder and inter-communal violence within local terrorist situations, HQs may initially extol considerable time and effort directly monitoring operations, to cope with the violence (Czinkota *et al.*, 2010). MNEs may seek to mitigate formal governance costs by decentralising control and information gathering to subsidiary managers (Oh *et al.*, 2020). However, it can take time in hostile environments to recruit quality subsidiary managers and establish subsidiary level managerial decision processes (Suder *et al.*, 2019).

IB terrorism research has emphasised the operational and security risks for MNEs operating in terrorist afflicted markets (e.g, Czinkota *et al.*, 2005; Jain and Gross, 2009; Suder *et al.*, 2019; Bader *et al.*, 2019). Our study, however, suggests that socio-political or legitimacy risks are also important considerations for MNE management operating in terrorist environments. Given the highly violent impact and protracted nature of some non-state domestic or local terrorism, local normative stakeholders can have high expectations on MNEs. Local MNE legitimacy suffers when the community or local employees perceive that MNEs are not satisfying expectations of welfare and fairness. This could arise when MNEs are not

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2  
3 sympathetic to the hardships of local stakeholders (Belhoste and Nivet, 2021), or insensitive to  
4  
5 the tensions and narratives relating to their political and ethnic background. Managing the  
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7 local terrorist group (or their political movement) as a derivative stakeholder could enhance the  
8  
9 subsidiary's ability to protect and interact with local normative stakeholders. This may be  
10  
11 challenging when multiple terrorist groups are operating in the area (Belhoste and Nivet, 2021).  
12  
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14  
15 Future research should seek to better understand stakeholder expectations in terrorist  
16  
17 environments and examine how MNEs attain legitimacy among normative stakeholders. Other  
18  
19 research may explore why and how MNEs interact with domestic terrorist groups within civil  
20  
21 conflicts (see Belhoste and Nivet, 2021), and to understand the mechanisms and conditions  
22  
23 enabling or constraining such interaction. For example, in the context of Ethiopia's civil  
24  
25 conflict, the Dutch government openly advised their companies to engage with non-state armed  
26  
27 groups to mitigate violent attacks on corporate assets. Perhaps government approval provides  
28  
29 political legitimacy for MNEs when engaging local terrorist groups. Current IB research offers  
30  
31 little practical advice for managers seeking to interact with terrorist groups.  
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34  
35 While we focused on the post-entry implications of domestic terrorism on MNEs, future  
36  
37 studies should examine how domestic terrorism impacts international market selection.  
38  
39 Echoing Dimitrova *et al.*'s (2022) call, we should examine the relationship between host  
40  
41 country location attractiveness and non-state domestic terrorism. The challenge is that non-  
42  
43 state domestic terrorism co-exists with other forms of intra-state violence, and varies  
44  
45 considerably in terms of the terrorists' motives, intensity of campaign and counter-insurgency  
46  
47 responses (Savitch, 2005; Piazza, 2009). Future quantitative studies may focus on a particular  
48  
49 type of domestic terrorism, country or region to control for extraneous variation.  
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54 IB terrorism research has unquestionably focused on how non-state terrorism threatens  
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56 foreign firm activity (e.g., Suder, 2004; Czinkota *et al.*, 2010; Elhai and Gauri, 2020; Powers  
57  
58 and Choi, 2012; Dimitrova *et al.*, 2022; Abrahms *et al.*, 2023). However, significantly  
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departing from IB-terrorism research, our study explains how *state* domestic terrorism interacts with MNEs in foreign markets. Extending the limited literature on state terrorism within IB (Harvey, 1993; Czinkota *et al.*, 2005), our study provides new insights into how domestic state terrorism constrains and enables MNEs in foreign markets. Whilst some MNEs are willing to exploit state terrorism and other means of state repression for strategic self-interest, other MNEs, for strategic and/or moral reasons, can avoid complicity with state terrorism and other forms of state repression (Li and Cuervo-Cazurra, 2023). This study further adds to extant state terrorism research within IR and PS literatures (e.g, Jackson *et al.*, 2010; Jackson *et al.*, 2011). Although prior state terrorism studies emphasis the beneficial outcomes of state terrorism for capitalism and inward FDI (e.g., Hristov, 2009; Blakeley, 2009; Maher, 2015; Holden, 2011; McKeown, 2011; Jackson et al, 2020), our study captures some of the adverse outcomes of state terrorism for MNEs.

State terrorism appears a more complex and ambiguous form of political violence for MNE management, compared to non-state terrorism. Whilst non-state actors admit terrorism acts, and states expose non-state terrorism for business firms through datasets on terrorism incidents and security narratives, states actively conceal state terrorism (Blakeley, 2007). States are rarely unified actors. As they operate within a complex web of entities with different levels of autonomy (Blakeley, 2007), it's possible that one of these entities uses terrorism without official state sanctioning. Furthermore, fear of government reprisal when exposing the state's terrorism means many executives may remain silent on state terrorism. Corporate silence constitutes another way in which MNEs are complicit with state terror. But some executives may not accept the claim that the state has employed unnecessary violence. Other managers, employees and stakeholders may disagree, driving them to hold the MNE accountable for its position. This is another way in which state terrorism yields risk for MNEs.

We encourage theoretical and empirical work to examine why, where and how state terrorism is linked to IB. Obviously, we need research, either at sector or firm level, that examines FDI linkages with domestic state terrorism. Exploratory qualitative work should examine the sector, institutional and corporate context driving MNE complicity with domestic state terrorism or other forms of state violence. Future work, however, might consider other ways in which MNEs intersect with state terrorism. Ben and Jerry's refusal to sell products within Israel demonstrates that some MNEs are prepared to challenge oppressive state practices. Perhaps ethics and brand values play a determining role in how MNEs are linked (or not) to state terrorists. Finally, many firms have substantially profited from international state terrorism associated with the US invasions of Afghanistan and Iraq (McCulloch, 2009). Future studies should examine how international state terrorism determines IB, and vice versa. If IB scholars are serious about the risks of terrorism, including ethical risk, then state terrorism matters.

The methodological challenges for investigating the links between state terrorism and IB are immense. State-level and corporate informants may be unwilling to engage researchers in this sensitive area. To overcome this barrier, scholars may interview community leaders, civilians, NGO informants and journalists who are close to the violence. Whilst civilian data may suffer from bias, it is possible to corroborate civilian accounts by using other interview data, and secondary data sources such as published books, expert commentaries, NGO websites and blogs (see Williams and Steriu, 2022).

#### 4.0 CONCLUSION

With this study, we contribute to extant research by examining how domestic terrorism impacts MNEs in foreign markets. Despite the sizable body of research on terrorism within IB, the literature has paid limited attention to local or domestic terrorism, considered the most common

form of terrorism in the world today. Extending the literature, therefore, we have uniquely examined two broad forms of domestic terrorism (state and non-state) and discussed how they impact MNEs in foreign markets. High intensity non-state domestic terrorism, with its regular and geographically concentrated political violence, involving multiple actors (e.g., terrorists, states and ethnic groups), yields operational, governance, and socio-political costs for MNEs. Much risk of domestic terrorism can stem from the socio-political environment as MNEs typically face a harmed and sensitive local stakeholder environment. Local stakeholders can expect MNEs to improve their lives and not constitute another harmful actor in the market.

Our study provides implications for managerial practice. Managers pre-entry analysis of the non-state domestic terrorism campaign should avoid sole focus on the terrorist incidents to avoid obscuring the risks of stakeholders and MNEs associated with inter-communal violence and counter-terrorism (including pro-state militias). Additionally, early engagement of local stakeholders is critical. This should allow managers to collect vital information on stakeholder expectations and mitigate potential distrust between managers and stakeholders. Given the politically and socially embeddedness of local non-state terrorists or political insurgents (English, 2006), some MNE local stakeholders likely support the political aims of the terrorist or political (not the means). Managers must avoid taking sides in the conflict and should extol sensitivity to local terrorist identities. These measures will enhance the organisation's capacity to build local relationships. Furthermore, managers should eradicate the corporate link to domestic state terrorism by boycotting states that exercise violent coercion against citizens and communities. MNEs currently complicit with state terrorism can divest from the foreign market or work with local communities to agree appropriate measures of reparation.

Finally, recognising how local communities are seriously affected by civil conflict and state terrorism, our study can help MNEs be more responsible for local communities in such

violent environments. Our study has value for the study of terrorism within IB teaching. Given many IB research papers focus on non-state terrorism, our study provides students and educators with new insights on the role of state terrorism within IB. This should provide students with a more balanced perspective to how terrorism intersects with MNEs.

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