

Effects of terrorism on businesses and economy



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Terrorism has deep history since the cold war but this issue became most salient after terrorist attacks in September 11 2001 and July 7 2005.

According to U. S department of state (2002), more than 3000 people of different nationalities were killed in the terrorist attacks in September 11, 2001. These attacks were the conspicuous example of terrorism on global level. Terrorism affects businesses around the world in both the long term and short-term. Czinkota (2004) cited that terrorism influenced long-term karma of entire industries, for example tourism, retailing and manufacturing industries. There are number of definitions of terrorism, which are complex and deliberate different dimensions. Alexander et al (1979) define terrorism as “ a threat or absolute use of enforcement and inclemency to achieve a political goal by means of intimidation fear, and coercion”.

The beginning of 21st Century changed the world drastically and the first reason behind this was the incident, which occurred on September 11 2001. The devastating terrorist attacks on the World Trade Center in New York. On this date, the whole world came into shock when America was under attack. The second incident, which happened on 7 July 2005 in London added fuel to fire. As both these countries are the main economies of the world, these incidents had a huge impact on businesses all around the world.

In this assignment, we will try to find the overall impact of these incidents left on the United Kingdom businesses. We will also focus our attention on the changes and new developments which happened, after these two events, in UK organizations.

This threat of terrorist attacks poses a continuous atmosphere of risk for all businesses in UK. This risk itself creates extension for treatment of risk in management theories. The majority of management literature theories adopt the term 'uncertainty' as a factor of unpredictable environment, which may influence the performance of organization in certain ways. The environment effected by terrorism also has a factor of unpredictability in it.

Effects of terrorism on UK economy and businesses:

According to the European Commission 2001 report, terrorists direct their attacks against businesses for more than any other target. Terrorism can bring any organisation or economy to its knees because of its fear and businesses fear for more attacks may happen, so they afraid to operate as normal. Increasing cost of security and putting new systems in place can cost huge amount of money to businesses ultimately decrease in the market value of businesses? Terrorism has its massive effects on UK economy and business activities. It affects deleteriously on businesses strategies and most businesses operating in the effected areas gets impact from the thrust of government policies to quell terrorism.

Businesses internationally and locally are particularly affected by terrorism because when incidents like 9/11 happen, it disrupts the supply chain and disturbs business activities in addition to interrupting information flows. It also effected on the industrial demand as well as consumer demand. This falling demand may have different outcomes which may comprises of losses of customers contracts, customer trust, reduced share of the market and a significant decline in sales, all of which could lead to business failure. For

example according to the report of BBC 22 July 2005, Bombs will cost just UK tourism alone; £300 million.

Terrorism has direct effect on UK organizations, somehow indirectly affects on buyers, which definitely declines in buyer demand creates unpredictable shifts, interruption in supply chain, disruption in the flow of policies, regulation and also has a wide impact on the macroeconomic factors of the country. Czinkota et al (2004) cited that over all every factor in economy gets the impact of terrorism and definitely responds to the action of terrorism. Modern terrorism is particularly onerous, because of characteristic of its time. The impact of terrorism on macroeconomic is crucial, customers feel themselves in stress and some kind of continuous fear, which definitely effects the spending patterns.

When terrorist attacks happened in New York and London, they affected businesses in a direct and indirect way and disrupted the economic process. Both of these attacks were on the main economic cities of the world trade. To make the effects of the terrorist activities stronger, terrorist groups targeted public and private organizations. Businesses are more attractive target for terrorist as their presence is everywhere and their aftermaths are deeper on society and on the economics.

Direct effect of terrorism on businesses:

Direct effects of terrorism comprise of instant and immediate consequences of terrorism. According to London Chamber of Commerce and Industry 2005 report, after the World Trade Center attacks, the IFM downsized its forecast of UK economic growth by 0.6% from 2.4% to 1.8% and according to Office

of national Statistics data UK actual growth was 1.6%, which was weakest economic growth for more than a decade. According to the Institute of Directors report in 2002, after New York attacks 20% of private organizations had increased business security, 52% of organizations carried regular risk assessment to assess their vulnerability to attack.

The effects of 7th July 2005 London bombings on UK organizations was even severe than the September 2001 attacks. The business confidence in London has slumped to the lowest levels not seen since the eve of Iraq War 2003. Number of UK organizations was expecting that the economy will improve in coming year but a dramatic slump given the -16% balance seen in the first quarter of the year. In August 2005, The Bank of England reduced Interest rates by one-quarter percent to improve economic conditions. The attacks brought bad time for the London not just in seasonal but economic term as well. According to Time Online (2005) UK's economic growth was seen to be the weakest since 1993. Many organizations respondents reported that their employees were scared to travel on public transport and preferred to travel by cars or taxis which lead to increased travel costs. For the people and organizations, which effected individually the loss was quite tragic. Moreover, direct effects include sudden increase in cost of product, decrease in production and output of firm, and loss of valuable human capital.

Indirect Effects:

Change in consumer demand heterogeneously:

While the indirect effects of terrorism in UK include prominent decrease in buyer demand, unplanned shifts and negative interruption in supply chain. Its also compel authorities towards the new policies and their immediate

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implementation. Indirect effects also include foreign relations of the UK organizations and country's governments, which affects trade. According to Loewenstein et al (2001) specifically indirect effects contains demand of consumer that may interrupt the deal of purchase or supply. It is evident that industry operates according to the demand of buyer. This is infecting a widespread of common fear of individuals, which in results decline in demand of industrial goods. Daniel Steel (2008) narrates that economic research also has roots in correlation and among behaviour and emotion. The negative emotions like state of fear definitely effects consumer behaviour, even after the happening of those events

Czinkota et al (2004) narrated that there may be need of making of policies, laws, and regulations for public and private organization in reaction to these terrorist attacks. Whilst these actions are intended to improve security conditions, they also cause delays in efficient business operations.

Indirect effects on organizational operations:

The other indirect effects of terrorism on UK organizations was discontinuity in supply of essential goods, services and resources and sometime unplanned shifts. These problems cause serious impact on the operation of organizations. In July 7 London terrorist attacks on local transportation and logical system (supply chain) effects badly on businesses around London. Due to suspension of supply chain all businesses struggled and also decrease in efficiency of organizations. It is common problem, while in terrorist attacks, the short-term shortage of services, good, input raw materials and components occurs; it took certain time to recover from this kind of shortage.

Macro economic phenomenon:

The macro economic phenomenon of London and New York terrorism was visible decline in per- capita income, decrease or sudden change in stock market value and increase in unemployment. Such trend affects the UK economy and consumer expectation. The long run impact was decrease in export and declines in GDP and tax revenues and the living standard of people.

Dealing with Terrorism – Shaped BCCM Planning:

In this part we will critically analyse the different management approaches and strategies, which could be helpful for organizations to deal with the global crises like September 11 2001 and London Bombing 2005. In this part of the assignment will evaluate performance and adaptation of suitable strategy by organizations on different kind of business activities and scrutinize the different business strategic views, which an organization can adopt for minimizing the effects of terrorism. We will also discuss different ways that organizations can benefit in term of increase in profit and minimise the impact of terrorism. With the threat of terrorism, organizations have to focus on the particular resources which are available to deal with these threats. Except terrorism, there are some other threats (financial and non-financial) which are also effect the organizational performances at the same time, organizational management have confine resources and mental steam to deal with effects of terrorism.

General strategy:

According to Alexander Dean C (2004), terrorism is a possibility, or it leads toward appearance of other possibilities. This kind of act effects producer

and as well as consumer psychology, its behaviour of consumption and its buying patterns. The impact of terrorism effects specifically in economic, industrial, political and legal context of external environment.

Consider Terrorism as a factor while planning:

Within the significant increase in risk of terrorism and uncertainty in the field, now all UK organizations are making policies or developing future strategies by considering terrorist threats. Organizations also need to include terrorism as a risk factor; selecting and targeting the potential threats and indentifying the different sources of threats are the most important tasks for organizational managers, while developing future strategies to grow and run the business locally or globally.

Sourcing, production and distribution:

By considering the operation of the organization in value chain that directs it toward production of products and their development. Increasingly most of the UK organizations are getting their supplies from all over the world. The bitter risk of terrorism affects the internationally complex system of value chain. Mostly terrorist groups attack on the sites of organizations and their logistic system directly or indirectly. The indirect impact of terrorism is the imposition of new rules and regulations, which emerges suddenly in the reaction of attacks by the government sectors which cause disruption in value chain movements. Due to the negative interruption in supply chain, it causes difficulties for organizations to fulfil the production orders and customer demand.

Due to tight security regulations at borders of all countries, a lot of the businesses have difficulties while fulfilling their operations. For example, <https://assignbuster.com/effects-of-terrorism-on-businesses-and-economy/>

Royal Mail suspended vehicles from moving between central London sites and in and out of London for the bulk of the day in July 7 2005. At least 25% of UK's mail move through London every day even if the final destination is elsewhere. The distribution and logistics are one of the most important direct and indirect impacts of terrorist attacks on UK organizations, that's why this became the duty of senior managers to incorporate the risk of supply chain in their future planning.

Mentzer (2001) cited that most of the organizations have established system of value chain, which may help organizations in getting raw material and goods from their suppliers and necessary components from all over the world. This is common practice for various organizations, due to globalization decrease in trade barriers and a secure supply chain infrastructure and advanced telecommunication sources. The risk of terrorism is a major threat and challenge for the supplier organizations. As long as the organizations are expanding their businesses around the world, the impacts of risk are also increasing on the operations of the organizations. Accordingly, organizations have to plan the arrangements to reduce the thrust of terrorism and its consequences on the supply chain structure of companies. According to Ghemawat and Del Sol (1998) overall the companies focus themselves to find out the other possibilities in order to make available the supplies for dealing in the competitive environment in the emergent of risky conditions. Flexibility directs towards versatility, which is a potential to act alter activities and apply adapted activities, for fulfil the need of the specific situation.

Consequences of terrorism on Pricing:

Organizations have to change price plans according to change in environment. Pricing is one of the fundamental factor which effects with the impacts of terrorism. For example in UK after Terrorist attacks, the insurance rates charged by insurance firms in big cities (like London, Manchester) where terrorist attacks occurred or had a higher chance of occurring, were much higher compare to small cities. Transportation companies may also charge a higher rate for carrying goods from or to risky areas. Similarly, uncertain environment of business pulls organizations to think about their pricing strategy.

The sudden effect of terrorism is increase of necessary products like oil and food supplied etc. because of their shortage. Transportation companies charge higher fares because of high risk to move into that area.

Organizational management have to keep in view uncertainty while defining and developing the pricing strategy. The situation of commodity market is relatively different, where prices may fluctuate quickly with the flow of information, the price must soften in for those commodities.

Global strategy vs. multi domestic strategy:

All UK organizations those who adopted multi domestic strategies had relatively less impact of terrorism of 07 July 2005 and 11 September 2001 terrorist attacks than those adopted global strategy. As far as the risk and fear of terrorist attacks increases, the theories emphasise more on multi domestic strategy in contrast with global strategies, which establish more meaningful ways to deal with uncertainty. According to Ghemawat and del Sol (1998) some of the resources may reduce the flexibility of organizations

which in results cause interruption in performance of the business internationally, these resources are highly location specific and according to the demand of local markets.

Conclusion

London is an economic centre and making the capital safer to do business in should be national priority for the Government. Different research suggest that London business community is not safer than it was before 07 July 2005 attacks. According to LCCI report, majority of UK organizations still perceive that there is very high risk of terrorist attacks in London again. This perception has fallen since last year and more than half of UK organizations have contingency plan in place to deal with terrorism effects on business.

Studies show that the economic impact on UK organizations has not been as severe as initially feared. Many organizations resumed services on 7 July 2005 and next day they started delivering as normal. Many organizations, those who had no contingency plans, started work to have one and other started to update their existing plans to minimise the effects of these attacks.

However many UK organizations revealed that 9/11 and 7/7 terrorist attacks had vary little tangible impact on them and business confidence had affected for the short period. However, it had huge impact on very important sector of London economy such as tourism, transport (trains and airlines) and retail sector.

UK employment market has not increased since 7th July 2005 attacks but employment terms were already bleak in London before attacks. Many

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organizations were expecting unemployment would increase in coming years before July 2005 attacks. Nevertheless, in reality London economy shook off the impacts of 11 September 2001 and 7 July London terrorist attacks.

It is evident from history that an unexpected and lengthy critical situation affects performances of organizations. The terrorist attacks in London and New York gave deep shocks to the businesses. Sometimes messages from these terrorist groups, that they can attack anywhere with extremely harmful weapons, results in businesses losing confidence and increased costs to the businesses and economy. Many organizations still have fear of terrorist attacks on the businesses although the UK government is trying to protect the public and private organizations. The targets of the terrorist are usually both kind of locations, public buildings like agencies etc, and private sector like business offices of staff of companies. At present majority of organizations are well prepared for any sort of sudden and unexpected terrorist event compared to July 2005.

The basic purpose of this study is to identify the impact of terrorism on businesses and how BCCM planning can help UK organizations to reduce the impact of terrorist attacks. For minimizing the impacts of terrorism managers develops different kind of strategies and sometimes managers can easily recover loss and can get continuous increase In profit if they choose right strategy for pricing in the response of terrorist attack.

Recommendations:

All organizations need to provide educational programs to all staff regarding terrorism and help them to prepare themselves for unexpected events like terrorism.

Government needs to provide intelligence support to help deal with terrorism effectively.

Businesses need to strengthen the relationship between themselves for detecting and fighting terrorism.

To encourage organizations, government need to offer disaster recovery loans and other loan guarantee programs to help organizations to recover from destruction of terrorism.

As the threat of terrorism increasing, so while evaluating international and domestic marketing strategies, managers have to consider effects of terrorism on businesses. In order to targets markets managers have to select those markets and industry zones where the threat of terrorism is at lowest or comparatively less effected.

As the rapid increase in the risk of terrorism, it is necessary for organizations to discover and develop the methods of supply chain and other channels of distribution, and adopt new strategies for logistics related channels.

For the long term, prospective organizations may bring diversification in their supply chain, by increasing the number of suppliers.