

# Chapter 12

## The Destructive Impact of Business-Related Terrorism on Start-Up Rates



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**Abstract** This chapter presents a comprehensive analysis of the effects of business-related terrorism on entrepreneurial rates, offering a novel perspective that extends beyond the widely studied impact of terrorism on economic growth. Recognising the potential for terrorism to adversely affect rates of new business creation, this research rigorously examines the correlation between business-related terrorism and entrepreneurial activities on a global scale. Utilising the data derived from the Global Terrorism Database (GTD), the study scrutinises the impact of business-related terrorist incidents on business formation across 120 countries spanning from 2006 to 2018. The findings reveal a compelling negative correlation between business-related terrorism attacks and the rate of new business creation, highlighting the exception of developed countries, which appears statistically insignificant in this context. The research further dissects the sample countries into various categories based on their development status, revealing that fragile nations suffer most significantly in terms of business formation due to terrorist incidents. This exploration serves to illuminate the crucial, yet often overlooked, destructive influence of terrorism on entrepreneurial activities and business density, particularly focusing on business-related terror attacks, thereby offering valuable insights for policymakers, economists, and business leaders globally.

### 12.1 Introduction

Do business-related<sup>1</sup> terrorist attacks deter entrepreneurial activities? Terrorist attacks present challenges for aspiring entrepreneurs' business activities and the survival of their firms (Jain & Grosse, 2009). Business-related terrorism refers to acts of terrorism that specifically target businesses, their operations, or their assets.

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<sup>1</sup> A list of fragile countries can be found in Appendix 1.A. See FSI (2019) for fragile states ranking.

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This could include attacks on company buildings, infrastructure, employees, or even cyber-attacks on business systems. The impact of such terrorism can be significant, often resulting in physical damage, financial loss, and disruption of business operations.

On the other hand, non-business-related terrorism refers to acts of terrorism that do not specifically target businesses. These could be attacks aimed at the general public, government institutions, public infrastructure, or specific individuals or groups (LaFree & Dugan, 2007). The purpose of these attacks is often to create fear and chaos, influence government policies, or advance a particular political, religious, racial, or ideological cause.

The key difference between business-related and non-business-related terrorism lies in their targets and their impacts. While business-related terrorism directly affects businesses and their operations, non-business-related terrorism has a broader impact on society as a whole. However, it's important to note that the lines can sometimes blur as an attack on a business can have wider societal impacts and vice versa.

Many empirical studies analysing the economic impacts of terrorism have been undertaken since the 9/11 terrorist attacks (Enders et al., 2006; Powers & Choi, 2012; Tingbani et al., 2019). The drastic impacts of terrorism on a country include loss of human capital (Abadie & Gardeazabal, 2008), employment generation, and overall business activity (Greenbaum et al., 2007; Tingbani et al., 2019). It is vital to understand that terrorism has a heterogeneous impact on different economies due to varying socioeconomic and institutional conditions (Hogetoorn & Gerritse, 2020; Meierrieks & Gries, 2012).

There are currently two streams of literature on the possible impacts of terrorism on the business environment. The major argument for expecting terrorism to affect entrepreneurial activity is that it will increase the economic costs for businesses to operate and thrive (Czinkota et al., 2010). There are also some indirect impacts of terrorist attacks, e.g., fear and safety concerns. It has been reported that expatriates in terrorism-ridden countries are unable to perform at satisfactory levels (Bader & Schuster, 2015).

Business-related terrorism goes beyond its immediate threats to businesses, and it provides a solid ground for destructive entrepreneurship. I identify several mechanisms through which this phenomenon occurs. To start, some entrepreneurs may seize financial opportunities amid terrorism's presence, engaging in "rent seeking" that exploits businesses' vulnerabilities for personal gain (Brück et al., 2013). In such instances, the quality of entrepreneurial talent in the country deteriorates from both the entry of low-skilled entrepreneurs and the outflow of highly talented entrepreneurs. This could result in additional limitations imposed by credit markets, such as increased interest rates and/or stricter collateral prerequisites, potentially causing more talented entrepreneurs to be excluded.

In the initial stages of business-terrorism incidents, as institutions and the rule of law weaken, an environment more conducive to informal and illicit entrepreneurship may emerge. This hypothesis is supported by Dutta and Sobel (2016), who contend that terrorism has the potential to create a more permissive environment for

such activities. Additionally, “the grease the wheels” argument from existing literature suggests that corruption can temporarily improve entrepreneurial opportunities (Dreher & Gassebner, 2013).

Understanding the macro-economic consequences of business-related terrorist attacks remains a key challenge for international institutes, policymakers, and scholars (Abadie & Gardeazabal, 2008; Feridun & Sezgin, 2008; Polyxeni & Theodore, 2019). There is a growing consensus among international institutions and researchers that terrorism is a threat to the global economy (GTI, 2022; Radić, 2018). Terrorism is known to destroy a country’s infrastructure development, stability, and financial performance (Blomberg et al., 2004), foreign trade (Nitsch & Schumacher, 2004), tourism industry (Lanouar & Goaid, 2019), and business climate (Abadie & Gardeazabal, 2008; Blomberg et al., 2004). Lanouar and Shahzad (2020) found that terrorist attacks in big cities or urban areas have relatively more adverse effects on capital inflows than attacks in smaller cities. Terrorism also increases the political risks, i.e., the complexities that businesses encounter due to governmental decisions and activities (Llewellyn & Chaddick, 1994). The political risk includes the probability that regulatory changes and political actions will harm the business environment. Reduced profitability, widespread corruption are some typical examples of political risks (Llewellyn & Chaddick, 1994).

The contrasting argument states that not all types of terrorism may not adversely affect entrepreneurial activity (Brück et al., 2011). The findings of the study conducted by Broun and Derwell (2010) also suggest that the stock market quickly recovered following a terrorist attack. Some research studies concluded that terrorism has a negative effect on business; however, the overall impact reverses in the short-run or long-run (Tauringana et al., 2020). Abraham and Smith (2000) found that terrorism has significantly reduced tourism demand over a 1 to 6-month period, with a recovery rate of 50% of the cases within a 3-month period.

The main motivation to undertake this research study is the dearth of conclusive evidence on the impact of business-related terrorism on entrepreneurship. This chapter investigates the impact of terrorist attacks on country-level business entry rates. It also determines the differences in its effects on developed, developing, and fragile countries. I further divide the country dataset into autocracies and democracies to see the influence of the political environment.

I also take a sample of fragile countries to study the impact of terrorism on entrepreneurial rates. I find very limited evidence on whether business-related terror attacks affect these countries differently due to the severity of socio-political violence in such countries. The severity of terrorism is quite high in such countries due to corrupt law enforcement capabilities, which give opportunities to terror groups to penetrate, plan, operate, and execute terror attacks with little government intervention (Piazza, 2008). This chapter is determined to understand the impact of business-related terrorism on entrepreneurial activities that can vary according to country classification, i.e., developed, developing, and fragile. I argue that the effect of terrorism on destructive entrepreneurship in these countries may vary depending on the institutional voids that can undermine the conducive business environment

for entrepreneurial growth (Doh et al., 2017; Mair & Marti, 2009). There is anecdotal evidence that terrorism attacks may have different impacts across developed, developing, and fragile economies. Llorca-Vivero (2008) found that terrorism has a more drastic impact on developing countries.

## 12.2 Literature Review

In the last decade, entrepreneurship studies focused on crises have increased substantially (Herbane, 2010). To understand the relationship between crisis and entrepreneurship, it is important to define how we view crises. It has various definitions, concepts, and typologies. In most academic literature, “crisis” is defined as an extreme event that can negatively influence the operations of the firm. It creates ambiguity in the decision-making processes of firms and also threatens their goals and values (Dutton, 1986). Defining crises has been a challenge for scholars for a long time. Williams et al. (2017) have defined crisis as a process, such that over time there is a deterioration and weakening that can culminate in an event and disrupt the normal functioning of the actor (i.e., individual, community, and/or organisation) involved. This weakening may result from daily disturbances or extreme low probability events (e.g., natural disasters, terrorism).

Terrorism is the premeditated use or threat to use violence by individuals or groups to obtain a political or social objective through the intimidation of a large audience beyond that of the immediate victims (Sandler, 2011a). The use of violence for achieving non-political goals, e.g., kidnapping for ransom, is considered a crime but not terrorism. The main aim of terrorists is to instil fear in a large audience so that public pressure can be built on officeholders and rulers to succumb to terrorists’ demands. To create this general atmosphere of fear, terrorists engage in various activities, i.e., kidnappings, bombings, armed attacks, hijackings, and assassinations (Enders et al., 2011). There is also a distinction between domestic and transnational terrorism. Domestic terrorism is homegrown; thus, the venue, target, and perpetrators are all from the same country. Hence, domestic terrorism mainly has an effect on the host country, its citizens, institutions, and policies. On the contrary, transnational terrorism involves more than one country. It means that victims, targets, supporters, or perpetrators can belong to more than one country (Enders et al., 2011).

Terrorism is a constant threat to economies, MNCs, and global commerce. Terrorism reduces the level of foreign direct investment inflows and also reduces the growth rate of domestic product (Gaibullov & Sandler, 2008). Abadie and Gardeazabal (2003) showed that GDP per capita declined by 10% between 1980 and 1990 in the Basque region of Spain relative to other states. It was the time when the Basque region experienced terrorist activities. In another research study conducted in Turkey, Bilgel and Karahasan (2017) found a difference in GDP per capita in the states that suffered from terrorism. States that had experienced terrorism suffered a nearly 14% decline in GDP over the period of 21 years compared to the states that

did not encounter terrorist attacks. Providing security to businesses is a key concern for policymakers (Jain & Grosse, 2009).

The negative impact of terrorism on entrepreneurship includes business failures, contract losses, and business insolvency. A few studies have also been conducted to bring to our attention the personal, emotional, and psychological impact employees face in the aftermath of the crisis. On the other hand, apart from the negative consequences, terrorism may also open new opportunities. Although, in many cases, terrorism proved disastrous for entrepreneurial intent, it leads to a dearth of resources, which necessitates individuals to start a venture, which is classified as disaster entrepreneurship (McKnight & Linnenluecke, 2019). It can further provide incentives for businesses to invent and develop new products. Previous research suggests that during the period of terrorist attacks, most of the countries' resources are spent on improving security conditions and less on the private sector, which in turn increases the cost of labour and capital (Lenain et al., 2002).

Brodeur (2018) concluded that the overall psychological impact of the risk of future terror attacks is high. Due to enhanced security demands and the allocation of resources towards terrorism-reducing projects, business survival and growth are in jeopardy. Increased uncertainty harms the investment climate of the country, and consumer confidence decreases. Increased terrorism also worsens individuals' living conditions and influences their migration decisions because of fear and uncertainty (Dreher et al., 2011). Terrorism also increases counterterrorism expenditures for the economy. It may enhance job prospects in the security sector. However, resources would move from productive sectors to unproductive ones. Before the September 11, 2001, attacks, domestic counterterrorism expenditures per year were about \$25 billion, and they increased to \$100 billion in the subsequent decade after the attack (Mueller & Stewart, 2014).

After the terrorist attack, there are also associated costs with increased surveillance and security measures, more spending on restoring damaged properties, and enhanced safety protocols for general citizens. All of this depletes important financial resources, which may result in the drainage of scarce financial resources (Fernandez, 2008).

### ***12.2.1 Terrorism and Business Activities***

After the 9/11 attacks, terrorism has garnered a lot of attention from international institutes and academic scholars. Huge losses of life, economic degradation, and declining physical capital resulting from terrorist attacks have gained the attention of researchers (Cevik & Ricco, 2020). Acts of terrorism can influence economic growth in both direct and indirect ways (Frey et al., 2007). The direct cost of terrorism involves damage to physical capital and the loss of human lives. According to some researchers, the direct cost of terrorism on the economy is not that large, as destruction caused by terror attacks accounts for a fraction of total physical stock (Becker & Murphy, 2001). The indirect costs of terrorism can be enormous. It can create emotional turmoil and alter the behaviour of individuals, firms, and the government.

It enhances economic uncertainty, thereby resulting in economic downfall, decreased consumer confidence, increased costs of loans, and a shift of budgets from productive sectors of the economy towards defensive counterterrorism activities (Lanouar & Goaid, 2019; Sandler & Enders, 2008; Zheng et al., 2021).

Terrorism poses a global threat that can have a significant influence on the actions and business performance of firms. A number of studies have confirmed that terrorism is one of the major concerns of business organisations and governments. Many firms include terrorism in their decision-making about choosing international markets or investment decisions (Czinkota et al., 2010; Li et al., 2005). A research study conducted by Czinkota et al. (2010) found that many firms are concerned about the threat of terrorism and its impact on business activity. Numerous firms reported increased business costs, interruptions in supply chains, and other international business challenges due to terrorist activities.

The indirect costs of terrorism can be substantial. First, it decreases buyer demand and instils fear and panic among the public following the terrorist attacks (Brodeur, 2018; Eckstein & Tsiddon, 2004). Businesses are also confronted with increasing transaction costs as they attempt to protect against terrorism and comply with government guidelines to enhance the security of business activities (Barnes & Olorun-toba, 2005). Enhanced government regulations and procedures also affect the overall business environment of the country (Czinkota et al., 2010).

Terrorism also has a detrimental impact on the inflow of foreign direct investment. Abadie and Gardeazabal (2008) provide empirical evidence that terrorist activities have significant explanatory power on net FDI. A recent empirical study conducted on the impact of terrorism on international mergers and acquisitions concluded that one standard deviation increase in terrorist attacks reduces the investment potential of a firm in a respective country by almost 30% (Hogetoorn & Gerritse, 2020). A cross-country study conducted by Enders and Sandler (1996) also suggested that terrorism has a negative 13.5% effect on FDI in Spain (for the time period 1976–1991) and a negative 12% effect on FDI in Greece (for the time period 1975–1991). Blomberg et al. (2004) conducted research on the effect of international terrorism on the economy based on cross-country panel data over the period 1968–2000. They found that the incidence of terrorism has a detrimental effect on economic growth. By further separating the study sample into developed and developing countries, they found that terrorist incidents have smaller effects in OECD countries compared to non-OECD countries. Other researchers have found a negative and significant effect of terrorism incidents on economic growth (Bayar & Gavrilitea, 2018; Gaibullov & Sandler, 2008; Mehmood, 2014).

One of the critical repercussions of the terrorist attacks is capital flight, which can potentially exert a negative influence on economic growth. This scenario is more worrisome for developing countries, which largely rely on foreign capital (Meerrieks & Schneider, 2021). As supported by the findings of Younas (2015), political turmoil, which is often triggered by terrorism, induces capital flight, which further exacerbates the risk to the economy.

On one hand, the fear of violence and instability can discourage entrepreneurs from investing in a particular region or country. Investors might perceive the area as too

risky and avoid it altogether, leading to a lack of economic growth and development. On the other hand, some entrepreneurs may see an opportunity in the aftermath of a terrorist attack. They may recognise that there is a need for new products or services that address the security concerns of the community. Additionally, entrepreneurs may be motivated to create jobs and stimulate economic growth in areas that have been affected by terrorism (Bennett & Estrin, 2021; Brück et al., 2011). This highlights the complexity of entrepreneurial responses to terrorism and need for further exploration in this area of research.

### ***12.2.2 Business-Related Terrorism and Destructive Entrepreneurship***

Business-related terrorism poses a significant threat to the stability and security of companies, economies, and society as a whole. This type of terrorism influences multinationals' investment decisions in different ways than any other forms of terror attacks. In a study conducted by Mancuso et al. (2010), the authors suggested that different aspects of a country's risk of terrorism can have varying effect on firm performance and business failures. In today's globalised economy, business-related terrorism presents a unique challenge for multinational corporations seeking to expand their operations across borders. Non-business terrorist attacks tend to have a minor effect on multinational corporations' internationalisation decisions, as they can still operate in a country while taking necessary security measures. However, business-related terrorism, which specifically targets businesses and their facilities, can significantly impact multinational corporations' decisions to invest directly in terrorism-prone countries (Powers & Choi, 2012).

This is due to the increased costs associated with implementing heightened security measures and protecting their assets, which can negatively affect the competitiveness of internationalising firms. The channels through which business-related terrorism affects business and multinational corporations are diverse and can include increased security costs (Abadie & Gardeazabal, 2003), decreased investor confidence (Tingbani et al., 2019), disruption of supply chains, and damage to brand reputation. Moreover, business-related terrorism can lead to a decrease in foreign direct investment in countries with a higher risk of terrorist attacks (Powers & Choi, 2012). In addition, research has shown that the macro-economic impacts of security measures implemented in response to terrorism can result in changes in investment behaviour due to increased risk.

As terrorism weakens governance structures and weakens the rule of law, corruption becomes more prevalent, hindering the growth and development of businesses. According to a study conducted by Meierrieks & Auer (2022), countries with higher levels of terrorism tend to have higher levels of corruption, creating an unfavourable

business environment for businesses. This leads to destructive entrepreneurship activities such as rent seeking and bribery, which further hampers economic growth and business performance.

## 12.3 Data and Methodology

To empirically investigate the effects of business-related terrorism on business density, I collect panel data from 120 countries during the years 2006–2018. The study period is limited due to data unavailability. The longitudinal nature of the data allows us to take advantage of the variation of terrorism data over time and across countries. Using country and year as the units of analysis, the econometric model takes the following form:

$$BusinessDensity_{it} = \alpha Terrorism_{it} + \beta X_{it} + \mu_i + \gamma_t + \varepsilon_{it} \quad (1)$$

Where  $BusinessDensity_{it}$  represents new business registrations, a natural log of new business density for a country at a specific time.  $Terrorism_{it}$  denotes the explanatory variable, annual count of business-related terrorist incidents.  $X_{it}$  is the vector of other control variables, where  $\mu_i$  represents country-specific effects that allow us to include other time invariant unobserved factors affecting value added.  $\gamma_t$  controls for unobserved year effects, and  $\varepsilon_{it}$  is the error term assumed to be normally distributed,  $N(0, \sigma^2_{\varepsilon_{it}})$ .

Initially, I estimated the model with the entire sample of countries. This was followed by disaggregating the sample into developing, fragile, autocracies, and democracies.

### 12.3.1 Dependent Variable

In the vast body of scholarly research, numerous studies have been undertaken to explain the concept of entrepreneurship (Acs et al., 2014; Henrekson & Sanandaji, 2020). Despite these extensive efforts, the term continues to be a subject of debate and contention within academic literature. The perception and understanding of entrepreneurship remain elusive and complex, owing to its multi-dimensional nature. This can be attributed to the fact that multiple definitions of entrepreneurship have been proposed by different scholars, each highlighting different characteristics of the phenomenon. Additionally, the methodologies for measuring entrepreneurial activities also exhibit significant variability. There is a debate in the scholarly literature on how to measure entrepreneurship at the country level (Acs et al., 2014; Henrekson & Sanandaji, 2014; Marcotte, 2013). The majority of empirical studies measuring entrepreneurship utilise two sources: self-reported data (surveys) from

random individuals or business formation rates from official business registries (Stenholm et al., 2013).

The Global Entrepreneurship Monitor (GEM) calculates national self-employment rates using representative random samples of a minimum of 2,000 adults within a given country. It employs four screening questions to categorise individuals as nascent, new, or established entrepreneurs. Nascent businesses have paid salaries for less than three months, while new businesses have paid salaries for no more than 42 months. The GEM's most commonly employed measure of national entrepreneurship combines the prevalence rates of nascent and new businesses among the adult population into a total early-stage entrepreneurial activity (TEA) rate. Furthermore, sub-indices have been created to focus on specific segments of the self-employed population (Reynolds et al., 2005). In contrast to the GEM index, which relies on random sampling from the adult population, the World Bank Entrepreneurship Survey utilises data obtained from national registries.

These measures, however, are not free from conceptual and methodological limitations. The self-reported measures of entrepreneurship struggle with conceptual clarification. Furthermore, metrics based on new start-up records may not be entirely comparable across nations, as they often lack a consistent definition for entrepreneurial activities (Ahmad & Hoffmann, 2008). Another limitation of these entrepreneurial measures is their limited geographical scope. They primarily focused on developed countries and needed expansion for cross-national comparisons in developing countries (Dvoulety, 2018).

Despite these limitations, recent research recognises the constraints of entrepreneurial activity indicators and demonstrates that regardless of which measures of entrepreneurship or self-employment are employed at the national level, the direction of influence of explanatory variables remains consistent (Dvoulety, 2018). This can be attributed to the fact that determinants at the country level exert their impact on a significant portion of entrepreneurs and self-employed individuals within the economy.

The dependent variable in our study is new business formation, which is measured by new business density. It is new business registrations per 1000 people aged 15–64. Data for this variable is obtained from the World Development Indicators of the World Bank. Several researchers have used this variable to examine the determinants of business start-ups and entrepreneurship across countries (e.g. Klapper et al., 2011; Klapper & Love, 2011). We acknowledge the limitations of the data, as they only include the number of new limited liability firms registered in the calendar year. The data comprises all limited liability companies, regardless of their size. Business density does not contain any zeros or negative values. Hence, I take a natural log of the variable to avoid positive skewness and, also to reduce the impact of influential observations.

### ***12.3.2 Main Independent Variables***

The main independent variable, terrorism, comes from Enders et al. (2011) and Gaibulloev and Todd (2019). For this study, terrorism is defined as “the threatened or actual use of illegal force, directed against civilian targets, by non-state actors, in order to obtain a political goal through fear, coercion, or intimidation” (LaFree & Ackerman, 2009, 348). In this study, I include count measures of the total number of business terror incidents (where the prime target was business entities). I am particularly interested in the impact of terror attacks where the prime targets are business entities, thereby heightening the fear of investors investing their money in businesses.

### ***12.3.3 Control Variables***

There are many factors that can influence entrepreneurial activity, including GDP per capita, credit to private investors, the number of procedures required to start a business, governance, and trade. Positive economic growth in the country is a determinant for the creation of new businesses (Lerner et al., 2013). As GDP per capita income rises, the advent of new technologies and economies of scale enable enterprises to supply the rising demand of expanding markets and to play a greater role in the economy (Acs, 2006). The GDP per capita, converted into US dollars using purchasing power parity, is added as a control variable as it is taken from the World Bank database. GDP per capita has been taken as a proxy for economic growth in various studies (Bosma et al., 2018; Boudreaux, 2019; Dutta & Meierrieks, 2021). Financial development can help create a more conducive environment for entrepreneurs by increasing access to financing, increasing competition, and improving infrastructure. A well-developed financial system can also reduce the risk associated with starting a business (Tauringana et al., 2020). An increase in loan size from banks and credit institutes can immensely help business entities operate more profitably (Detragiache et al., 2008). Financial development plays an important role in firm survival. I add credit to private investors as a control variable taken from the World Bank Indicators database. Studies on entrepreneurship and business creation have always given importance to entry regulations for business entities in the country. In the previous literature, the number of start-up procedures required to register a business was used as a business start-up regulation (Djankov et al., 2002). A procedure means the interaction of the entrepreneur with various external parties, for example, government authorities, and taking necessary approvals, permits, and licences to officially operate the business. The more procedures there are to start a business, the more difficult it is for aspiring entrepreneurs to launch their businesses. The data for a number of procedures is taken from the World Bank’s Doing Business database. Previous studies have shown that ease of entry regulations mean that there

will be a greater number of newly registered businesses, which in turn will create more jobs in the economy (Fritsch & Noseleit, 2013).

One of the determinants of entrepreneurial activity is the presence of strong institutions. The ability of the government to enable sound institutional frameworks that permit and promote private-sector development can encourage aspiring entrepreneurs to enter their market (Abegaz et al., 2023). The data on governance comes from the Worldwide Governance Indicators (WGI) database. Governance is described as “the traditions and institutions by which authority in a country is exercised” (Kaufmann et al., 2010, p. 4). Based on the definition above, the quality of governance is based on six dimensions: (political stability, control of corruption, government effectiveness, rule of law, regulatory quality, and voice and accountability). Each of the dimensions is measured on a scale ranging from  $-2.5$  to  $2.5$ .

The final control variable incorporated in the analysis is the trade of goods and services index, denoted as a percentage of GDP. This variable is introduced with the expectation that the volume of traded goods and services may have a significant effect on business formation within a specified time frame (Herrera-Echeverri et al., 2014). The volume of trade as a percentage of GDP is also taken from the World Bank Indicators database. The high volume of trade is a testament to thriving economic activity and, hence, indicates that businesses are productive and profitable. Table 12.1 presents the descriptive statistics.

Figure 12.1 below shows the relationships between business-related terrorist attacks and business density. I can observe a negative link between terrorism and business formation. I will attempt to validate this perception in the empirical section.

## 12.4 Results

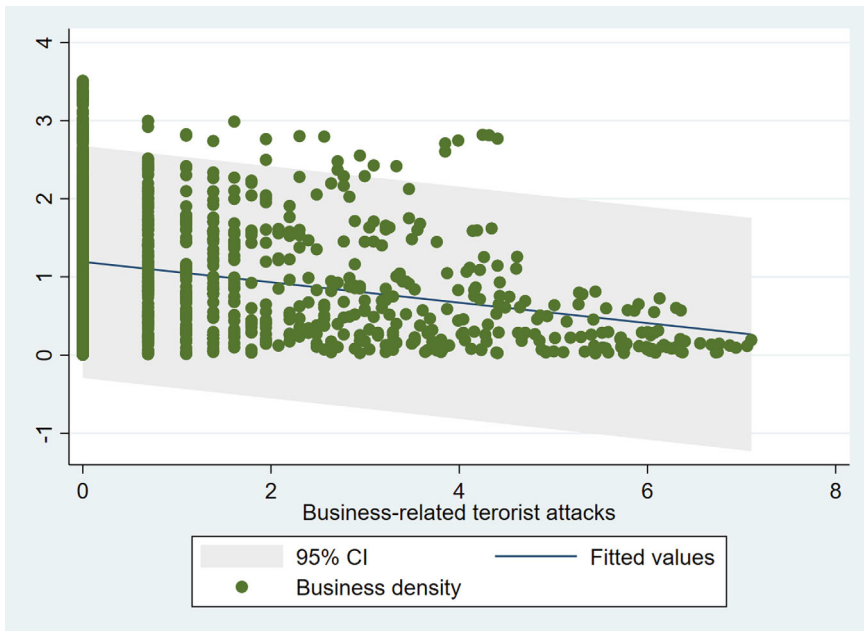
In Table 12.2, I have considered terrorist attacks whose primary targets were business entities within a country. This will help me evaluate the association between terror attacks and new business formation when the prime targets of the terrorists are business organisations. It can create a disruptive environment for business investment and growth. Overall, terrorist attacks on business entities do influence businesses in a negative way, as shown in column 1. The association is significant at ( $p < 0.05$ ). In model 1, the coefficient for total terror attacks is  $-0.00056$ . Since the business density variable is log transformed, this translates into a negative 0.005% change in business density for every additional terror attack. The same results hold true for all other models except for developed countries and autocracies, with little variation in the magnitude of coefficients.

In column 4, I examine the effects of terrorist attacks on fragile countries only. Regime types can also influence the effect of terrorism on business activities. Strict autocracies can restrict terrorism-related activities by curbing freedoms and strategic opportunities (Gaibullov et al., 2017). On the other hand, previous studies found a positive relationship between democracy and terrorism (Chenoweth, 2013; Dreher & Fischer, 2010). My results conform with previous findings. As for the controls, GDP

**Table 12.1** Descriptive statistics

Variables	Obs	Description	Mean	Std dev	Min	Max
Business density	1341	New firm registrations per 1000 working age people (ages 15–64). <i>Source</i> World Bank’s Entrepreneurship Survey and database	3.064	4.283	0.00679	32.44
Business terror attacks	1,723	Business-related terrorist attacks	26.3250	104.1654	0	1238
GDP per capita	1594	GDP per capita (PPP-adjusted 2010 international US \$). <i>Source</i> World Development Indicators	8.605	1.543	5.53	11.43
Credit to private investor	1523	The Financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities, and trade credits. <i>Source</i> World Development Indicators	3.608	0.96	−0.698	5.733
Trade (% of GDP)	1739	GDP per capita growth (annual %). <i>Source</i> World Development Indicators	88.55	50.02	0.167	442.6
No. of procedures required	1599	Start-up procedures are those required to start a business, including interactions to obtain necessary permits and licences and to complete all inscriptions, verifications, and notifications to start operations. <i>Source</i> World Bank, Doing Business Project	7.507	3.813	0	19
Governance	1592	Average of six governance indicators (political stability, control of corruption, government effectiveness, rule of law, regulatory quality, and voice and accountability). <i>Source</i> World Governance Indicators	0.022	0.908	−2.103	1.889

*Note*GDP—gross domestic product; Std Dev.—standard deviation.; Max.—maximum; Min.—minimum; Obs.—observation



**Fig. 12.1** Business-related terrorist attacks and business density

per capita is significant and positively associated with business density in all columns except for developed countries, where it is insignificant, and autocracies, where I observe a negative sign but an insignificant coefficient.

The total number of procedures required to start a business is not significant in any of the columns. Governance is positively and significantly associated with business density in all columns except for developed countries and democracies. Trade (% of GDP) is significant and positively associated with business density in all columns except for developed countries. Overall governance and trade exert a positive influence on business density. It indicates that countries with good governance and trade openness are better equipped to have a thriving business environment. Current literature also states that good governance plays a vital role in reducing the likelihood of terrorist activities (Li, 2005).

**Table 12.2** The effect of terrorist attacks (target type = business entities only) on business activity, 2006–2018

Dependent variable—business density	(1)	(2)	(3)	(4)	(5)	(6)
	All countries	Developed countries	Developing countries	Fragile countries	Autocracies	Democracies
Terrorist attacks ( <i>Target type = Business</i> )	–0.00056** (0.00027)	0.00224 (0.00234)	–0.00055* (0.00028)	–0.00109*** (0.00037)	–0.00019 (0.00022)	–0.00086** (0.00037)
GDP per capita (log)	1.062*** (0.242)	0.855 (0.662)	1.142*** (0.275)	–0.132 (0.383)	1.145*** (0.312)	0.796** (0.355)
Credit to private	0.191* (0.103)	0.395** (0.175)	0.120 (0.130)	–0.102 (0.227)	0.179 (0.161)	0.142 (0.130)
Total procedures number	0.002 (0.010)	0.043 (0.026)	–0.004 (0.010)	–0.021 (0.022)	–0.020 (0.018)	0.015 (0.013)
Governance	0.531** (0.243)	0.506 (0.424)	0.511* (0.276)	1.602** (0.620)	1.343** (0.520)	0.366 (0.261)
Trade (% of GDP)	0.004*** (0.001)	0.003 (0.027)	0.005*** (0.001)	0.010** (0.003)	0.006** (0.002)	0.003** (0.002)
Constant	–10.42*** (2.106)	–10.47 (6.913)	–10.36*** (2.170)	–0.04 (3.019)	–10.16*** (2.494)	–7.86** (3.076)
Observations	1,276	396	880	267	394	882
R-squared	0.338	0.409	0.347	0.567	0.464	0.294
No. of countries	120	32	88	30	48	91
Country FE	YES	YES	YES	YES	YES	YES
F-stat	11.77	10.66	9.93	20.63	9.67	7.66
Prob > F	0.00	0.00	0.00	0.00	0.00	0.00

Note Robust standard errors in parentheses (clustered over countries)\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

## 12.5 Conclusion

Entrepreneurship plays an important role in enhancing the competitiveness of the economy (Kritikos, 2014). Understanding the link between terrorism and entrepreneurship hasn’t been thoroughly explored in the past. The third chapter of the thesis contributes to the literature by examining the link between terrorism and business activities.

Previous researchers concluded that terrorism’s effects are more profound in developing and fragile countries (Gaibullov & Sandler, 2009). Developed economies are more resilient to short-term disruptions caused by terrorism (Bardwell & Iqbal, 2021). However, empirical studies produced mixed results. Tauringana et al. (2020) found no significant relationship between terrorism and global business

performance. My research study addresses this gap by focusing on how business-related terrorism influences formal business activities, a topic that has been less studied.

The chapter concludes that business-related terrorist activities are detrimental to formal business registration. However, I observe that the negative association between business-related terrorist activities and business density is stronger in fragile countries.

## 12.6 Policy Implications

According to the study, business-related terrorism poses a negative influence on business formation. These results are significant for developing, fragile, and democratic countries. The study finds that the impact of terrorism on business density is larger and more significant in fragile states. It suggests that policymakers should concentrate on strengthening the rule of law, enhancing governance, and filling institutional gaps in these nations. This could involve international cooperation and assistance to strengthen institutional capacity and resilience against terrorist activities.

Implementing economic development programmes could address the root causes of terrorism, given that terrorism is likely a symptom of larger socioeconomic problems. This could entail enhancing access to education, job creation, and poverty alleviation initiatives, especially in regions with high terrorist activity.

Considering that business-related terrorist attacks have a greater impact on business density, it is essential to develop policies that protect businesses specifically from such threats. This may include measures such as providing security advisories, assisting with risk assessment, and offering insurance plans to at-risk businesses.

Governments must actively encourage entrepreneurship to counteract the negative effects of terrorism on business density. This could be accomplished through fiscal incentives, access to capital, improved business education, and a business-friendly environment.

## Appendix 1

A: List of fragile countries included in the sample.

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Afghanistan

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Bangladesh

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Burkina Faso

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Cambodia

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Central African Republic

(continued)

(continued)

Afghanistan
Chad
Democratic Republic of the Congo
East Timor
Ethiopia
Guinea
Haiti
Iraq
Kenya
Liberia
Madagascar
Malawi
Mali
Myanmar
Nepal
Niger
Nigeria
Pakistan
Philippines
Rwanda
Sierra Leone
South Sudan
Sri Lanka
Togo
Uganda
Zambia
Zimbabwe

## Appendix 1

B: List of all countries included in the sample.

Afghanistan	Iceland	Philippines
Albania	India	Poland
Algeria	Indonesia	Portugal
Argentina	Iraq	Qatar

(continued)

(continued)

Afghanistan	Iceland	Philippines
Armenia	Ireland	Romania
Australia	Israel	Russia
Austria	Italy	Rwanda
Azerbaijan	Jamaica	Saudi Arabia
Bahrain	Japan	Senegal
Bangladesh	Jordan	Serbia
Belarus	Kazakhstan	Sierra Leone
Belgium	Kenya	Slovak Republic
Bhutan	Kosovo	Slovenia
Bosnia-Herzegovina	Kuwait	South Africa
Brazil	Kyrgyzstan	South Korea
Bulgaria	Laos	South Sudan
Burkina Faso	Latvia	Spain
Cambodia	Lesotho	Sri Lanka
Central African Republic	Liberia	St. Lucia
Chad	Lithuania	Sweden
Chile	Macedonia	Switzerland
Colombia	Madagascar	Tajikistan
Costa Rica	Malawi	Tanzania
Croatia	Malaysia	Thailand
Czech Republic	Maldives	Togo
Democratic Republic of the Congo	Mali	Tunisia
Denmark	Malta	Turkey
Dominican Republic	Mauritania	Uganda
East Timor	Mexico	Ukraine
Estonia	Moldova	United Arab Emirates
Finland	Montenegro	United Kingdom
France	Morocco	Uruguay
Gabon	Myanmar	Vietnam
Georgia	Namibia	Zambia
Germany	Nepal	Zimbabwe
Ghana	Netherlands	
Greece	New Zealand	
Guatemala	Niger	
Guinea	Nigeria	
Haiti	Norway	
Hong Kong	Pakistan	

(continued)

(continued)

Afghanistan	Iceland	Philippines
Hungary	Panama	
<b>Peru</b>		

## Appendix 1

C: List of developed and developing countries included in the sample.

Developed Countries	Developing countries		
Australia	Afghanistan	Iran	Qatar
Austria	Albania	Israel	Russia
Belgium	Algeria	Jamaica	Rwanda
Bulgaria	Argentina	Jordan	Saudi Arabia
Croatia	Armenia	Kazakhstan	Senegal
Cyprus	Azerbaijan	Kenya	Serbia
Czech Republic	Bahrain	Kosovo	Sierra Leone
Denmark	Bangladesh	Kuwait	South Africa
Estonia	Belarus	Kyrgyzstan	
Finland	Bhutan	Laos	South Sudan
France	Bosnia-Herzegovina	Lesotho	Sri Lanka
Germany	Brazil	Liberia	Tajikistan
Greece	Bulgaria	Macedonia	Tanzania
Hungary	Burkina Faso	Madagascar	Thailand
Iceland	Cambodia	Malawi	Tunisia
Ireland	Central African Republic	Malaysia	Turkey
Italy	Chad	Maldives	Uganda
Israel	Chile	Mali	Ukraine
Japan	Colombia	Mauritania	United Arab Emirates
Latvia	Dem. Republic of the Congo	Mexico	Vietnam
Malta	Dominican Republic	Moldova	Zambia
Netherlands	East Timor	Montenegro	Zimbabwe
New Zealand	Gabon	Morocco	
Norway	Georgia	Myanmar	
Poland	Ghana	Namibia	
Portugal	Guatemala	Nepal	
Slovak Republic	Guinea	Niger	

(continued)

(continued)

Developed Countries	Developing countries	
South Korea	Haiti	Nigeria
Spain	Hong Kong	Pakistan
Sweden	India	Panama
Switzerland	Indonesia	Peru
United Kingdom	Iraq	Philippines

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