

Stakeholder Engagement in Conflict-Affected Areas : A Perspective on Recent Practice

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ABSTRACT

Companies intending to practice responsible business in areas of conflict are increasingly faced with questions about how to engage with stakeholders in order to reconcile their competing needs. These questions merit a review of lessons learned from dilemmas in environments experiencing different stages of conflict. By 2003, there were already over 63,000 multinationals employing over 20 million people in developing countries (and 90 million globally). Proactive engagement in conflict prevention correlates with avoiding damage to local facilities, staff, corporate reputation, and profits. Taken together, these variables influence the degree to which corporate financial and social performance can be reconciled in difficult operating environments. This article discusses some of the recent successes and failures in stakeholder engagement in conflict-affected areas with a view to highlighting recurring features of effective policies and practice.

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1 . INTRODUCTION

Conflicts can turn violent because of any of a number of social, economic or environmental factors, such as an increase in refugees or a change in the access rights to vital resources, the collapse of a major industry or natural disasters.¹ Foreign direct investment (FDI), despite lofty intentions, can also exacerbate conflict by changing the allocation of resources in a society (Switzer & Hussels, 2004 : 10-12).

From this perspective, violence is preventable and a consequence of conflicts that are

1 For a delineation of conflict and violence, see Johan Galtung's definition of conflict and concepts of direct, structural and cultural violence (Journal of Peace Research, Vol. 27, No. 3, 291-305, 1990, International Peace Research Institute, Oslo). Though Galtung's models are contested, his definitions of conflict and violence remain conceptual icons in the social sciences. For an outline of some of the main issues being debated, see Peter Lawler's (1995) book, A Question of Values: Johan Galtung's Peace Research.

handled ineffectively. It can be ignited by competition for scarce or dwindling resources, and fueled by greed or grievance as it fluctuates through periods of pre-conflict, mid-conflict and post-conflict.² It is against this backdrop that peacebuilding enters as a specific tool of intervention that can be mobilized to prevent violence, including the reduction or removal of its structural drivers such as institutional arrangements that privilege one group of countries at the expense of another group. Given that one of the main structural drivers is poverty, corporate intervention at the pre-conflict stage, for instance, often targets economic development as an engagement objective. But while such an approach may yield certain benefits, it also brings with it new questions related to the role of self-interest and the sustainability of profit-oriented organizations engaging in conflict prevention.

Developing a financial rationale for corporate involvement in an area of conflict is arguably a legitimate corporate responsibility from the conventional legal view of a company as an organization with fiduciary duties to its shareholders. Yet institutional guidelines on responsible business refrain from articulating an explicit approach to conducting conflict-sensitive business that meets the needs of investors while at the same time reducing tensions in emerging markets, and tend instead to leave such complexities to the invisible hand of market forces.³ As such, the prevailing discourse rests on the controversial assumptions that a neoliberal model of socio-economic development is achievable and desirable, and that less industrialized countries can improve their standing by deregulating their markets and following best practice as defined, among others, by international financial institutions such as the World Bank and the International Monetary Fund.

1.1. Overview of Context

As we discuss corporate conflict prevention, a working definition of conflict will reconfirm the scope of the discussion. The first delineation to make is between the concepts of conflict and violence. Conflict is a state of tension in which one party's goals compete with those of one

2 There are many critics of using greed and grievance to explain the drivers of conflict. Paul Collier and Anke Hoeffler have defended the greed theory.

3 For further reading on conflict-sensitive guidelines, see Pearson Peacekeeping Centre's *Business, Conflict, and Peacebuilding: An Operational Framework*, Pan Kanagaretnam and Susan Brown, Canadian Peacekeeping Press (2005), International Alert's *Conflict-Sensitive Business Practice: Guidance for Extractive Industries* (2005), the UN Global Compact and OECD *Guidelines for Multinational Enterprises*, (2005) OECD Press, UN *Norms on the Responsibilities of Trans-national Corporations and Other Business Enterprises with Regard to Human Rights* (2003), and Amnesty International's *Human Rights Principles for Companies* (1998), available at: <http://www.amnesty.org/en/business-and-human-rights>. Last accessed 1/15/13.

or more other parties, creating frustration that can lead to violent (or non-violent) outcomes depending on the degree to which their goals can be made mutually compatible. Violent conflict can come about as an outcome of inequitable access to resources, or from a failure to distribute wealth over time in ways that satisfy the needs of the majority of stakeholders reasonably well.

Most of today's violent conflicts are within states rather than between them. The 'greed' hypothesis maintains that some conflicts are fought to gain control over valuable natural resources within national borders. The 'grievance' hypothesis maintains that some conflicts are due to development failures, where projects or policies aggravate existing divisions in society, often by undermining livelihoods that depend on natural resources. In both cases, violence tends to emerge more often in fragile states that are able to exploit their natural resources to fund conflict. Valuable resources appear to provide an opportunity, and in some cases, a motive, for war (Switzer & Hussels 2004).

On the whole, the resource view on conflict holds that violent conflict has been the result of inequitable access to vital resources, competition between social groups for political power, and incompatibilities between groups with different senses of identity, opposing ideologies, or irreconcilable value systems. In other words, to claim that the causes of war are determined by economics alone would be simplistic. The impact economic dependence on trading oil or diamonds can have on funding armed violence is well documented, but there is no consensus to date as to whether these have led to 'resource wars' per se. In highlighting the contextual relationship between natural resources and armed conflict, Humphreys (2005) branches out from the greed and grievance hypotheses to posit six types of mechanisms; greedy rebels, greedy outsiders, grievance, feasibility, weak states, and sparse networks, elaborating on how any of the elements can conspire with another to fan the flames of violent conflict (Humphreys, 2005: 512-513). In sum, while the recurrence of violence cannot be explained sufficiently by economic factors alone, it cannot be denied that resource extraction has played a central role in sustaining armed conflict in areas where these assets are abundant.

The countries referred to as the resource-rich-but-poor vividly illustrate how conflicts today resurface primarily in regions suffering from poverty and are often motivated or sustained by trade in natural resources or human trafficking. Civilian fatalities in wartime have grown from 5 per cent at the turn of the century, to 15 per cent during World War I, to 65 per cent after World War II, to over 90 per cent in the wars of the 1990s.⁴ But, although natural resources

4 Report by Graca Machel, UN Secretary-General's Expert on the Impact of Armed Conflict on Children. Full report at: <http://www.unicef.org/graca/patterns.htm>. Accessed 01/20/13.

such as oil, diamonds, and timber have contributed to untold suffering in times of war in countries like Liberia and Sierra Leone, there are also examples of business serving a stabilizing function in countries recovering from conflict by providing, among other benefits, economic alternatives for ex-combatants.

According to Nelson (2000), this was the case with the AGRIMO company in Mozambique in the 1990s. The company established a cotton out-growers scheme for small-scale producers, providing seeds, micro-credit and know-how, with the government setting prices. After 17 years of civil strife, the country signed a peace agreement in 1992 and held its first elections in October of 1994. From 1995 to 1996, about 1,000 farmers produced 80 tons of cotton. Growth continued and by 1998, some 15,000 farmers were supplying 5,000 tons to AGRIMO (Nelson, 2000: 72). While some businesses provide support for technical assistance to target populations in conflict-affected areas for the reintegration of vulnerable populations, others such as AGRIMO have programs aimed at proactively helping populations at risk of livelihood vulnerability. (Saperstein and Campbell, 2007 : 78-79). With AGRIMO's increased trade capacity and its programs to bring about widespread wealth creation in support of local livelihoods, it stands as an example of how mutual gains can be generated through corporate intervention in a post-conflict scenario, but does not address the question of how companies might intervene at the pre- or mid-conflict stages.

1.2. Issues Around Corporate Intervention

To demonstrate how their business activities help to deescalate social tensions in what are euphemized by the United Nations as *difficult operating environments*, Western companies, for example, are often quick to defend their presence in conflict-affected countries with the argument that they are providing employment and thereby 'contributing to the local economy' (Powell et al, 2011: 2). Bird and Herman (2004) put this assertion in question and take a closer look at the extent to which the notion of 'creating jobs reduces poverty' actually stands up under scrutiny.⁵ The summary of their findings from British and American tobacco companies in Africa was that:

“[(1) High technology] business activities do not easily provide job opportunities for largely unskilled or semi-skilled indigenous people living in rural areas [but that (2) Nonetheless] looking over a 30-40 year period, training local staff and providing economic

5 For a series of corporate case studies across a range of socio-economic development projects, see Herman and Bird's *International businesses and the challenges of poverty in the developing world*, 2004, Palgrave Macmillan, New York.

and technical assistance would have strengthened the local economy and the corporate-community relationship.” (Bird & Herman, 2004 : 124-138)

The authors observe that in the context of tobacco farming, core indicator of social impact is compensation for the inevitable disruptions that an international business brings to a local community. Together with two dozen researchers from developed and developing countries they conducted field studies with firms in Nigeria, Uganda, Ghana, Vietnam, Guyana, and the Nunavik region of northern Canada to design strategies firms might adopt to enhance their own assets and those of the areas in which they operate. They conclude that returns must be shared and sustained over the long term in an equitable manner to have any positive economic impact, and argue that there are three principles that need to be taken into account in assessing the social responsibilities of international business firms in developing areas:

“[1] an awareness of the historical and institutional dynamics of local communities. This influences the type and range of responsibilities the firm can be expected to assume; it also reveals the limitations of any universal codes of conduct, [2] the necessity of non-intimidating communication with local constituencies, and [3] the degree to which the firm’s operations safeguard and indeed improve the social and economic assets of local communities.” (Bird & Herman, 2004, pp. 14-33)

Building on their fieldwork in Africa and the Americas, the authors review the principles of the Caux Round Table, the Sullivan Principles, and the guidelines of the ISO26000, SA8000 and OECD, and conclude that there are three criteria upon which to base guidelines if they are to be operational: [1] maximize returns for all stakeholders in proportion to the value of their contributions, [2] in proportion to their legal claims and [3] in proportion to the risks to which their investments have been exposed. (Bird & Herman, 2004 : 111-123). If such guidelines on what is essentially stakeholder engagement are to be made operational however, normative criteria will have to be combined with instrumental criteria in order to incentivize corporate management with its fiduciary responsibilities to their shareholders.

2 . WHEN A CORPORATE PRESENCE IS THE BETTER ALTERNATIVE

2.1. Examples from Western Business

For years, Canadian oil and gas company Talisman was under pressure to divest and withdraw from Sudan, especially after the Canadian government published its Harker Report, which criticized the company for contributing to the conflict. Talisman then sold its shares in a

Sudanese oil pipeline to an Indian oil and gas company, which was under less pressure to adhere to any specific code of conduct. The net effect may be a worsening of the impact of oil operations on the conflict. Or, as Daniel Wagner (2004) from the Asian Development Bank points out through an example from Indonesia that illustrates some of the lessons learned in situ, namely, that divesting from a difficult operating environment is not always in everyone's best long-term interest.⁶ Wagner explains :

One of the best examples is the Freeport mine in West Papua (formerly, Irian Jaya), Indonesia. An NGO sought to have Freeport's PRI [political risk insurance] cancelled for alleged violations of the environmental conditions set out in the insurance provided by the Overseas Private Investment Corporation (OPIC, a US Government agency) and the Multilateral Investment Guarantee Agency (MIGA, a member of the World Bank Group). Because covenants of the insurance appeared to have been breached by the company, OPIC cancelled the coverage. Freeport took OPIC to court, had the insurance reinstated, and then itself cancelled OPIC's and MIGA's insurance. The NGO's objective of stricter environmental compliance backfired. When the insurance was cancelled, Freeport was no longer obligated to adhere to strict, internationally accepted environmental regulations (Wagner, 2004 : 36).

In practice, especially for industries that are more deeply invested in a conflict zone, such as the extractive, telecommunication and heavy construction industries, disinvesting is very rare. Despite the extreme controversies over Shell's operations in Nigeria for example, Basil Omiyi, country chair, Shell Nigeria, stated in December 2008 that, "We have been a major player here for the past 50 years and [...] Shell has no plan to pull out of Nigeria."⁷ For these big footprint industries, the business case for corporate engagement is more likely to be found in preventing exorbitant costs resulting from material or non-material damage, such as costs related to litigation and security than in the often heard 'new business in emerging markets'. But if CSR principles are to be made operational in conflict-affected areas, relying on lessons learned from a limited set of industries from primarily Western companies would overlook insights from other industries and business cultures.

6 From the report, *Investing in Stability; Conflict Risk, Environmental Challenges and the Bottom Line*, published by the United Nations Environment Programme and International Institute for Sustainable Development (IISD) in Geneva in cooperation with the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, 2004.

7 Jane Nelson's pyramid uses the categories of compliance, risk minimization and value creation to show a scale of proactive thinking. See Nelson's *The Business of Peace. The Private Sector as a Partner in Conflict Prevention and Resolution*, p. 7.

2.2. Examples from Non-Western Business

Japan, for example, has a much longer history of CSR than many of those countries advocating its practice today. The country's 17th century Ohmi merchants used an expression, *sanpo yoshi*, (lit. the "three-sided good"), meaning that transactions should be good for sellers, buyers, and society. CSR has emerged as a norm in the discussion of business ethics in the west, but it is nothing new to Japanese business culture.⁸ At the global level, too, an exceptional example to Japan's otherwise reserved stance on CSR is its very central role in the Caux Roundtable, where Canon's then chairman, Ryuzaburo Kaku promoted the corporate philosophy of cooperation or *kyosei*.⁹ To demonstrate how these principles might be carried out in practice, we look now at a case of a pioneer of peacebuilding business whose approach provides a potential example of how engaging in peacebuilding can be made feasible under certain conditions. Kiyoshi Amemiya, president of Yamanashi Hitachi Construction Machinery Co., Ltd., reports in his own words that :¹⁰

"[We recognized the problem that in] Africa one person is injured by a landmine every twenty minutes. In Afghanistan, four children under the age of sixteen die every day, and four are injured. In Angola, landmines are buried in an area covering 420,000 square kilometers, larger than the land area of Japan. The reasons for so many children among the victims are that, first of all, children are closer to the ground and more likely to be injured in a blast, and second, they try to pick them up, attracted by their colorful appearance and shapes, mistaking them for toys. And kids can't read the letters spelling 'danger'. Children lose arms and legs during their growing years, and then they are wracked by unimaginable pain. Artificial limbs can cost \$3,000 each.

But [we asked ourselves] what can a company with only 60 employees accomplish?

8 For more information on the historical development of Japanese CSR, see Masahiko Kawamura's (2003) paper, *Japanese Companies Launch New Era of CSR Management in 2003*, NLI Research Institute (Nippon Life Insurance Company).

9 Former Canon chairman, Ryuzaburo Kaku, defined *kyosei* as: "[a] 'sprit of cooperation' in which individuals and organizations live and work together for the common good. A company that is practicing *kyosei* establishes harmonious relations with its customers, its suppliers, its competitors, the governments with which it deals, and the natural environment." (*The Confucian Roots of Business Kyosei*, *Journal of Business Ethics* 48 : 317-333, 2003)

10 For the full story, see Hitachi's 2005 CSR report: http://www.hitachi.com/csr/csr_images/khoukoku2005.pdf. One of the many unique points in this case is the fact that it is technically a small company with only some 60 employees (though part of the larger parent company). This raises the question of the potential of SMEs to be 'sustainable enterprises' (contrary to the public perception that SMEs cannot engage in CSR like major companies).

And this work involved danger. 'Even for a small-town factory there's a way to contribute something to the world. Please help me battle the world's landmines,' I said. And my employees and their families responded positively.

[...A priority] in our design was to support the self-sufficiency of local people. We help by providing technology transfers for machinery operation and maintenance, and the machine itself is designed to be versatile. By changing the attachments, the people can use this machine for more regular work. For example, in a Nicaraguan village, an area where the landmines had been cleared away was cultivated and restored as an orchard. Today, the village ships 600,000 cases of oranges every year."

3 . DETERMINING COMPLICITY

In 2001, the International Peace Academy wrote that companies make themselves part of the wider context of conflict by entering or continuing to operate in countries affected by chronic human rights abuse, instability, or civil war, or by maintaining business relations with local suppliers or distributors in these countries (IPA: 2001).¹¹ The report highlights their findings that "any decision corporate leaders make in these circumstances may potentially affect the conflict in a positive or negative manner". Finally, the report confirms that establishing the extent to which a corporation is complicit in conflict is central to the notion of corporate responsibility, and highlights the fact that no consensus exists on what 'being complicit' actually constitutes.

3.1. Complicity Related to Trade

Privatizing peace in the context of trade requires regulating the illicit flow of conflict-enabling and high-value resources, easily tradable commodities like diamonds, gold, and precious gemstones. Similarly, goods that are only slightly less tradable – like forest woods, oil, drugs and arms – call for trafficking controls. The German research house, InWEnt, reported in 2003 of a Japanese consortium's involvement in this type of trade-related conflict (Schroeder-Wildberg and Carius, 2003, p. 20). The report reads :

Four large conglomerates dominate the pulp and paper industry in Indonesia. The Sinar Mas/APP and Raja Garuda Mas/APRIL groups represent integrated producers while Kiani Kertas and PT Tanjung Enim Lestari are the most important producers of market

11 See IPA's 2001 report: Private Sector Actors in Zones of Conflict: Research Challenges and Policy Responses.

pulp. [...] PT Tanjung Enim Lestari is a joint venture between Indonesia's Barito Pacific Group, a consortium of Japanese investors, and a holding company owned by former President Suharto's eldest daughter.

According to this account, Japan's demand for wood has led to an increase in illegal logging in Indonesia, which has in turn led to an increase in local conflict and violence. Meanwhile, a consortium of Japanese investors (and Suharto's eldest daughter) continue to export these products to the Marubeni corporation in Japan. From a complicity perspective, this begs the question of who should be held accountable, and for what. Also, what degree of responsibility would the end-users in Japan have in such a case? And to what extent could the shareholders of Marubeni bear responsibility for the ongoing conflicts in Indonesia?

3.2. Complicity Related to Products

Causation remains an issue insofar as the correlation between a company's participation in a given country's economy, and the violence perpetrated in that country by the government or rebel groups remains ambiguous. In other words, if a corporation's activities contribute to the revenues of a government at war, then it is sustaining that government and its ability to perpetuate violence. The shortage of practical guidelines that can be made operational is particularly relevant to conflict-sensitive codes of conduct, as many of the enabling factors that perpetuate violent conflict could be prevented if companies would adhere to these codes. Neil Cooper helps to explain this dynamic between trade and conflict with an explanation of what constitutes conflict goods:¹²

"Conflict goods are non-military materials, knowledge, animals or humans whose trade, taxation or protection is exploited to finance or otherwise maintain the war economies of contemporary conflicts. Trade can take place by direct import or export from the conflict zone or on behalf of military factions (both government and non-government) by outside supporters. Arms, military aid and services of mercenaries, as they may be paid in kind, concessions, or cash could be included as conflict goods."

It remains difficult however to assess the extent to which the provision or deprivation of revenues from such products correlates to the scope and intensity of military campaigns (IPA,

12 For a full description of conflict goods, see Neil Cooper's chapter, *State Collapse as Business: The Role of Conflict Trade and the Emerging Control Agenda*, p. 180, in Jennifer Milliken's, *State Failure, Collapse and Reconstruction*, Blackwell Publishing, 2003, Oxford.

2001: 4-5). One example of this was when roads and airstrips built in Sudan by the Canadian oil corporation Talisman were used with Talisman's permission by the Sudanese government during the civil war to launch attacks on groups in southern Sudan.¹³ Another example of this was when Exxon Mobil hired one or more military units of the Indonesian national army, known as the Tentara Nasional Indonesia, to provide security for its gas extraction project in Aceh. The troops set out on an ongoing campaign of systematic torture, murder, rape, and acts of genocide against the local Achanese population.¹⁴ Under extreme conditions such as these, corporate management may be overwhelmed about how exactly to engage in dialogue with insurgent groups, many of whom may even become part of the country's future government (Switzer & Ward: 2004).

Two examples of voluntary initiatives that address the use of products or services to commit human rights violations or pursue violent conflict are Amnesty International Human Rights Principles for Companies that say 'companies which supply military security or police products or services should take stringent steps to prevent those products and services from being misused to commit human rights violations', and the UN Norms which say that 'business enterprises shall refrain from any activity which supports, solicits, or encourages states or any other entities to abuse human rights. They shall further seek to ensure that the goods and services they provide will not be used to abuse human rights' (Switzer & Ward, 2004: 28). After reviewing these instances of preventing complicity, we turn now to more proactive approaches of business diplomacy.

4 . BUSINESS DIPLOMACY IN CONFLICT-AFFECTED AREAS

Becoming increasingly aware that there is no neutral ground for companies in areas of conflict, corporate decision makers face a basic dilemma formulated succinctly by Haufler (2001): stay and exacerbate the conflict; stay and contribute to a peaceful transformation of the conflict; or leave. An additional dimension can be introduced to this three-part structure to study the dilemma through a fourfold table (see figure 1). The dilemma of staying or withdrawing is a useful point of departure for focusing only on the most pressing decision to be made, but the anticipated consequences of staying or leaving should be factored in to map the potential impacts of these actions on the conflict areas. This additional dimension serves a

13 See Gagnon, Macklin & Simons, "Deconstructing Engagement: Corporate Self-Regulation in Conflict Zones- Implications for Human Rights and Canadian Public Policy." University of Toronto, Public Law Research Paper No. 04-07, p. 26, January 2003.

14 For more information, see *The Key Human Rights Challenge: Developing Enforcement Mechanisms*, Harvard Human Rights Journal, 2002 : 15, p. 190.

Figure 1 : Extension of Haufler's corporate-conflict dilemma (2001)

	De-escalate Conflict	Exacerbate Conflict
Stay Invested	<ul style="list-style-type: none"> • Business Diplomacy Boston-Derry, N. Ireland • Industry-wide Initiatives Kimberly Process, S. Africa 	<ul style="list-style-type: none"> • BP in Colombia • UNOCAL in Myanmar • Rio Tinto in Chile
Withdraw	Texaco et al in Myanmar	Talisman in Sudan

second function of making explicit the (potentially false) dichotomy of staying or withdrawing. For instance, it is theoretically possible that a proactive company not in the conflict area could engage in peacebuilding in a country in which they currently have no operations.

Haufler's description of the below dilemma is "[...] when violence breaks out businesses have three general options: withdraw entirely; stay but try to ignore the conflict; and—a new option—remain invested in a country but work to prevent the escalation of violence" (Haufler, 2001: 663). In the author's correspondence with Haufler, the latter included examples of how having abundant natural resources can, paradoxically, have a negative effect on a country's ability to meet its own basic human needs (referred to in different contexts as "resource rich but poor" countries, the "paradox of plenty", the "resource curse" or the "Dutch disease"). She wrote that it is often referred to as the 'Dutch disease', named after the Dutch experience with the macroeconomic pitfalls of oil resource development (Haufler, *The Private Sector and Governance in Post-Conflict Societies*, unpublished draft, 2006).

Professor Ian Holliday of the City University of Hong Kong sent the author an article he wrote that points to the possibility of Japan's MNCs assuming a proactively diplomatic role in Myanmar.¹⁵ His article reminds the reader that diplomats in Tokyo have spent many years pondering how to make constructive engagement work, and are concerned about how to balance Chinese influence in Southeast Asia (Holliday : 2005b). Chinese corporate leaders currently oversee a significant array of MNC representation in Myanmar. This proposal is thus in many ways a plausible private-sector extension of Tokyo's existing involvement with the Myanmar problem.

Furthermore, Japan is ideally placed to secure some degree of US acceptance of a new way forward, and might through skillful diplomacy be able to engage the ASEAN states and even China. This would stand as an example of corporate peacebuilding as indicated in the above

15 For a more general summary of arguments in support of corporate intervention, also in regions beyond southeast Asia, see Allan and Colletta's *Privatizing Peace*, p. 155.

diagram, i.e., a new category of company that engages a difficult operating environment with the express intent of easing local tensions within its own sphere of influence. (Holliday: 2005, *Doing Business with Rights Violating Regimes; Corporate Social Responsibility and Myanmar's Military Junta*, *Journal of Business Ethics*, 61: 329-342).

A further example of business diplomacy is the Consultative Business Movement (CBM), which according to UNEP/FI (2004), was established by members of the South African business community in the 1980s to promote a peaceful transition from apartheid. Through consultations with exiles and leaders from banned or restricted organizations such as the African National Congress (ANC), it established relationships between key business people, politicians and activists. This permitted CBM to mediate at a critical juncture between the government and ANC in the negotiations that led to the 1991 National Peace Accord, and in convincing the ANC of relaunching economic growth through a market economy.¹⁶ In spite of the relative success achieved in these and other cases, skeptics remain unconvinced that the private sector has a constructive role to play in conflict areas.

4.1. Mixed Views on Corporate Engagement

As a consequence of globalization, international private sector actors have become more influential to the peace, security, and prosperity of developing countries than in previous decades, but foreign direct investment (FDI) can have helpful or damaging impacts. The nature of the impact depends to some extent on the corporate leaders' level of conflict sensitivity. It is recognized that intentional profiteering from a disenfranchised community or from business activities related to violent conflict does not necessarily constitute complicity. Conversely, complicity can also be unintentional. As Wagner (2004) observes:¹⁷

“A good example of the possible consequences of not paying enough attention to the social and environmental issues associated with owning and operating a mine is

16 From the report, *Investing in Stability; Conflict Risk, Environmental Challenges and the Bottom Line*, published by the United Nations Environment Programme and International Institute for Sustainable Development (IISD) in Geneva in cooperation with the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. The report is a collection of articles written by John Bray (Control Risks Group), Jason Switzer, Mareike Hussels (IISD), Daniel Wagner (Asian Development Bank) and Michael Kelly (KPMG).

17 From the report, *Investing in Stability; Conflict Risk, Environmental Challenges and the Bottom Line*, published by the United Nations Environment Programme and International Institute for Sustainable Development (IISD) in Geneva in cooperation with the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

Bougainville in Papua New Guinea (PNG). In 1988 a small group of villagers blew up some of the mine's installations, coming in the wake of demands for compensation for loss of land and resources to the project, and alleged pollution of the local river system. Refusal by the mine owner and the PNG government to address the demands prompted escalating guerrilla action against the mine and its employees. The company closed the mine down the following year and it has remained closed. Thousands of people died in an ensuing civil war, and litigation against the mine and its owners continues to this day."

Proponents of FDI on the other hand maintain that it stimulates economic growth and facilitates economic and political liberalization. Under certain circumstances, however, and particularly in the natural resource extraction sector, FDI has weakened fledgling states and facilitated the outbreak or continuation of violent conflict, regardless of the intentions of the particular corporation concerned (IPA, 2001 : 1).¹⁸ Giving careful consideration to the potential social impacts of a proposed FDI initiative and thinking through the most appropriate alliance for conducting business in a volatile area can make the difference between succeeding and failing at managing local risk and its repercussions on global reputation. As an example of a failed FDI project, Switzer and Hussels cite a public utility project, which triggered a series of violent events in Bolivia :

In Cochabamba, Bolivia, more than 40 per cent of the city's inhabitants lack direct access to treated water sources. In 1999, Bolivia granted a 40-year privatization lease to London based International Waters Ltd., giving it control over the water utility for the town. The company increased water charges as a prelude to infrastructure investment. In mid-January 2000, residents called a general strike, allegedly in protest against higher water prices and lack of measurable access and service improvements. Cochabamba was placed under martial law. More than 175 protesters were injured and several more killed

18 Paris (2002) also explains that, "Among other things, peacebuilders attempt to bring war-shattered states into conformity with the international system's prevailing standards of domestic governance, or standards that define how states should organise themselves internally. In this respect, the contemporary practice of peacebuilding may be viewed as a modern rendering of the mission civilisatrice-the colonial-era belief that the European imperial powers had a duty to 'civilise' their overseas possessions. Although modern peacebuilders have largely abandoned the archaic language of civilised versus uncivilised, they nevertheless appear to act upon the belief that one model of domestic governance-liberal market democracy-is superior to all others." See peacebuilding and the 'mission civilisatrice'. *Review of International Studies* (2002), 28, pp. 637-656.

in street battles over four days. In concession to the public uprisings, the Bolivian government broke the contract that had privatised the region's water system. International Waters Ltd. in Bolivia withdrew, claiming some US\$40 million in damages. The resolution of the urban water crisis in Cochabamba will require, therefore, not only compensation for the failed privatisation, but new investment sources, which may be even harder to attract in the wake of past violence. (Switzer & Hussels, 2004 : 12).

In spite of these reservations about corporate engagement in conflict prevention, Gerson and Colletta claim the private sector can 'aid the public sector in the area of peace' because (1) the private sector shares an interest in having predictable environments to carry out their operations, (2) rebel armies, at least those in Colombia, trust the business community more than the government, supposedly because their intermediary skills are superior to those of the public sector staff, (3) the private sector is able to identify the financial needs of these rebel armies without letting 'politics and ideology' get in the way, and (4) because the private sector seeks to 'maximize results from a minimal use of resources', unlike the public sector. There remain however constituencies with strong reservations about corporate involvement in what has traditionally been a public sector function, and with significant grounds for said reservations related to the private sector's prioritization of its constituents, adhering to a creed of shareholder primacy over the needs of other stakeholders.

From a more pragmatic perspective, Bull and McNeill (2007 : 12-20) developed a typology of eight kinds of partnership between companies and international organizations such as the UN or development banks, which classify partnerships by organizational structure and objective; (1) Resource mobilization partnerships - raising funds for specific goals, i.e. the MDGs, (2) multilateral fundraising such as direct private sponsoring of multilateral activities (e.g. P&G and UNICEF, IKEA and UNICEF etc.), (3) Channeling private investments to specific projects: The World Bank, UNDP, or UNCTAD position themselves to leverage FDI flows to those countries where it is most needed, whereas UNIDO is taking a lead role in bringing SMEs into the global value chain, (4) Advocacy partnerships: raise awareness concerning the global issues addressed by the UN - or add new issues. These typically seek to combine the expertise of the private sector, the legitimacy of the UN, and the resources of both partners. (5) NetAid - online community for poverty issues launched by UNDP and Cisco Systems or UNESCO and the History Channel in Japan (The World Heritage), (6) Policy partnerships: one of the main functions is to develop norms and standards, the Global Compact being the most important example, (7) Operational partnerships: these range from standard products and services from companies to the UN (\$3 billion per year), to provision of AIDS medication,

risk management support for companies etc., and (8) Secondment between companies and the UN/World Bank, sometimes also through fellowship programs (Bull & McNeill, D., 2007: 12-20).

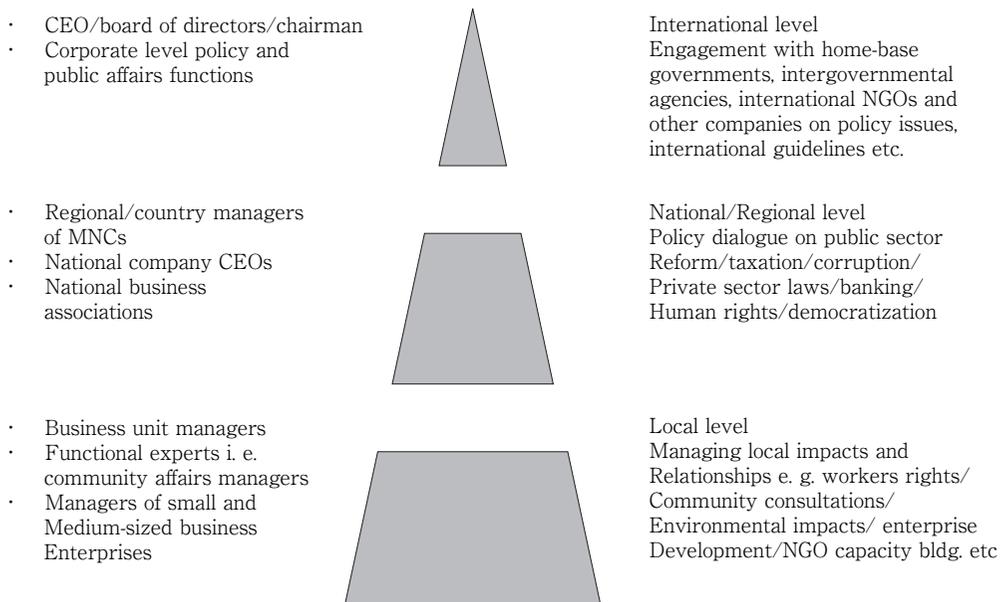
In view of the work accomplished by public-private partnerships such as these, and similar initiatives, some NGOs remain optimistic regarding the private sector's potential for constructive engagement (see below diagram from International Alert's contribution to Jane Nelson's *The Business of Peace*). The World Bank, too, unreservedly promotes the idea of "privatizing peace" (see Gerson & Colleta's book by the same name). In a chapter entitled "The Private Sector : Problem or Panacea?", they proclaim:

"The private sector has a role in peace processes in myriad ways. The process of peace is complex and multi-staged, from peacemaking to peacekeeping and enforcement to peacebuilding. To varying degrees of effectiveness, the private sector has an important part to play at almost every stage. Moreover, at each step, the rise of globalization and the shift in the nature of war only serves to increase the private sector's influence.

In speaking of privatizing peace, we suggest injecting the private sector in all UN and other multilateral peacemaking, peacekeeping, peace-enforcement, and peacebuilding efforts. The anticipated result is greater clarity of mission, better articulation of

Figure 2 : Adapted from Nick Killick of International Alert, a peacebuilding role for businesspeople (2001)

Adaptation of Lederach's Triangle A role for people in business



performance objectives, and the delineation of measures for judging results in an open, transparent and accountable framework.” (Gerson & Colletta, 2002: 34)

Killick’s pyramid above lists some of the basic options for corporate engagement at various levels. Similar to Haufler’s dilemma model, however, it leaves out the option for a company to proactively engage in an area of conflict with an explicit peacebuilding objective. The US-based company, PeaceWorks, is an example of such a company. It creates business opportunities for former adversaries to collaborate through commerce rather than engaging in violent alternatives. The founder and CEO, Daniel Lubetzky, has initiated several conflict prevention projects that have been documented including Israel/Palestine and Chiapas, Mexico. By sourcing ingredients from both countries for products that he sells in the US, he is able to provide his Israeli and Palestinian partners a viable alternative to fighting each other. He informed the author in a telephone interview that in spite of the frequent upheavals in the region, his business partners on both sides of the border have continued their collaboration now for decades.

CONCLUSION

The cases discussed above suggest that companies with operations in areas experiencing conflict cannot reasonably claim not to have any influence on the communities in those places, though the nature of that influence is situational and often complex. Second, the examples of companies working in conflict-affected areas indicate that the decision to remain invested or to withdraw is multi-faceted and characterized by its inherent uncertainty.

Furthermore, as evidenced by such initiatives as the United Nations Global Compact and its Principles of Responsible Investment or Principles for Responsible Management Education, International Alert’s guidelines for Conflict-Sensitive Business Practice, the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, the Voluntary Principles on Security and Human Rights, and Amnesty International’s Human Rights Guidelines for Companies, there is a growing body of codes of conduct related to businesses in areas of conflict. Though these guidelines address basic challenges businesses face when trying to act responsibly in areas of conflict, they have important limitations; most notably their absence of enforceability and independent monitoring, and the lack of industry specificity – most focusing mainly on the extractive industries (Kolk & van Tulder, 2002, p. 36).¹⁹

19 For a comprehensive study codes of conduct, see Kolk and van Tulden’s work on International Codes of

A further limitation to conflict-sensitive codes of conduct of the past decade has been their focus on guidelines for corporate conduct within a fixed geographic area, a “conflict zone”, rather than guidelines including a broader range of stakeholders who operate outside the conflict zone but who can influence social tensions and are therefore part of the wider conflict system (e.g. diaspora, socially responsible investors, shareholder and consumer activists, etc.). It is acknowledged that Amnesty International and the UN Norms make reference to products and their misuse to commit human rights violations, but this implies exclusion of all products sold outside the conflict zone that fund, albeit only in part, corporate actors in conflict zones. In other words, if the argument is that companies operating in corrupt regimes serve to sustain those regimes, then consumers who support these companies with their continued purchasing of those companies’ products also bear a degree of responsibility.

To sum up, there remains a dearth of empirical research on the barriers to making CSR principles more operational in conflict-affected areas. Conflicts are multi no hyphen faceted phenomena, and leveraging a company’s core competencies to ease the tensions in a conflict zone is easier said than done. And yet, whether or not to continue operating, what level of engagement to have, if any at all, and with what intent to continue doing business in the area; all these dilemmas remain inescapable. Though there is still too little evidence to establish any correlation between ‘doing well by doing good’ in areas of conflict, using a conflict-sensitive business approach to probe the business case for corporate conflict prevention has begun to yield new insights into this urgent and intriguing investigation.

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