A framework for analysing corporate engagement

3

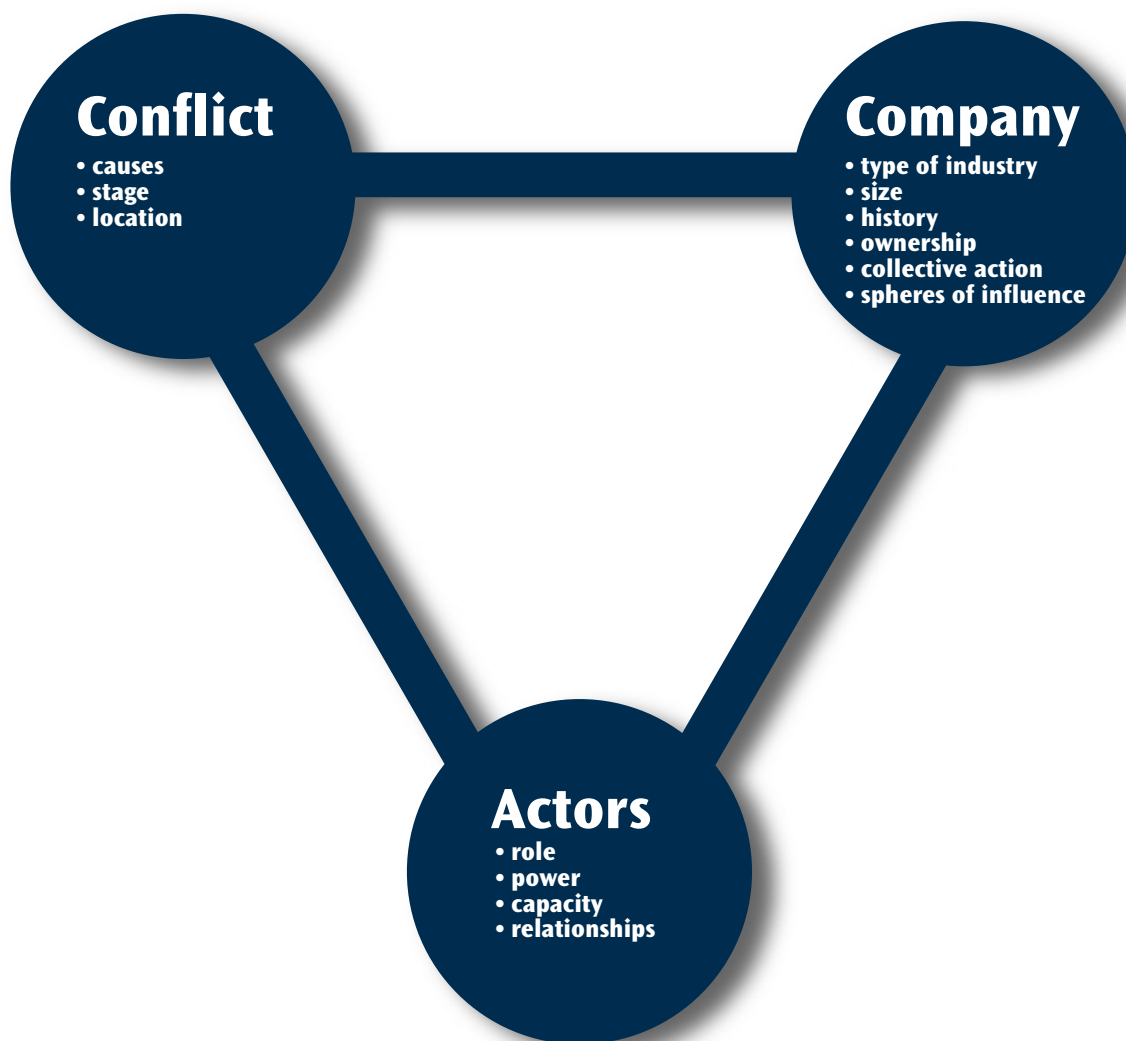## 1. The conflict
2. The actors
3. The company

Understanding and acknowledging the social, economic and political context of conflict must, from now on, be the *sine qua non* of outside involvement, whether political, commercial or humanitarian. Within that broad context, outside actors must account for their engagement and the impact of their activities.

War, Money and Survival, International Committee of the Red Cross, 2000

Making money and making war have long been related activities. That soldiers loot and arms manufacturers turn a profit is hardly new. But is competition for wealth and resources becoming the major cause of new wars around the world? Where tribal violence, independence struggles or cold-war rivalry were once blamed for wars, now bandits, traders and some businesses are being fingered, especially in developing countries. Though some conflicts are ethnic or religious clashes or stem from scraps over influence, many of today's wars, especially civil ones, have a strong commercial element too often ignored by analysts outside, though not by businessmen willing to profit from war.

The Economist, March 2000

Conflict
- causes
- stage
- location

Company
- type of industry
- size
- history
- ownership
- collective action
- spheres of influence

Actors
- role
- power
- capacity
- relationships

The diagram on the opposite page summarises three key factors that work in combination to shape the risks, roles and responsibilities of a company or industry sector in conflict. These are as follows:
- **The nature of the CONFLICT**
- **The activities and relationships of other ACTORS**
- **The characteristics of the COMPANY**

It is the dynamic and complex linkages between these factors that determine how a company either influences or is influenced by conflict in any particular situation. The linkages may operate on each other in different ways at different times. Almost every case is situation-specific. There is no generic 'blueprint' for action. These three factors do, however, provide a set of questions against which a company, or its stakeholders, can assess its particular situation, its risks, its likely impacts and its possible responses.

1. THE CONFLICT

What are the causes of conflict?

What are the underlying causes or triggers that are driving a current conflict or likely to drive a future conflict? What is the existing or potential influence of the company or industry sector on these causes and triggers?
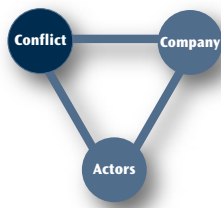
Extensive research has been undertaken on the causes of conflict. The following section aims to provide an overview of these and to illustrate their possible linkages to business activities. In considering the causes of conflict it is useful to distinguish between:
- underlying, systemic or root causes, which usually create the pre-conditions for violent conflict; and
- triggers, proximate and immediate causes, which are often the factors that move a high risk situation of potential conflict into a situation of violence.

a) Underlying causes

Four main categories of underlying causes have been summarised by International Alert and others.[14] These are as follows:
- Resource-based conflicts based on competition for economic power and access to natural resources;
- Identity conflicts based on competition between rival ethnic, religious or other communal identity groups for access to political and economic power and social justice;
- Ideological conflicts based on competition between rival ideologies and value systems;
- Conflicts over governance and authority based on competition for political power and participation in political processes.

Identity-based causes of conflict

In some ways globalisation diminishes differences between different peoples and ethnic groups. But this idea of a smaller world does not mean an end to ethnic conflict and nationalism. On the contrary, in an anonymous world of global bureaucracy and multinational commerce, the national idea, the sense of belonging to a smaller group, will become more not less attractive.

Outlook 2000: Global Risk Forecast, Control Risks Group, 1999

The stark and tragic images of 'ethnic cleansing' in places as different as Central Africa and the Balkans have placed identity at the heart of today's debate on the causes of conflict. Control Risks Group in its Outlook 2000 report [15] states, 'in the late 1990s there were some 70 major ethnic conflicts in the world, and there was little evidence that many of these would abate in the near future'.

Identity politics

Close analysis of these conflicts, however, illustrates that it is often not ethnic differences *per se* that have created conflict, but either:
- the way in which political leaders and other actors have exploited these differences and incited intolerance in order to consolidate their own positions of power or access to resources; and/or
- growing inequality between different ethnic groups.

In such cases there is often a rise in identity politics and/or a breakdown in the protection of minority rights, which in turn leads to violent conflict. Instead of engendering a sense of national identity and community, leaders polarise their people into separate groups, with one (or more) groups having unfair access to power and resources compared to the others. Private sector operators can consciously or inadvertently become part of the problem by publicly identifying with, accepting patronage from, hiring employees from or providing products and services to one ethnic group to the exclusion of others.

Religious fundamentalism

Linked closely to the concept of identity is the role of religion. Conflicts between different religious groups have occurred throughout history and continue to play a role today. In particular, there has been a resurgence in fundamentalism – both Islamic fundamentalism in the East and Christian fundamentalism in the west. In both cases, fundamentalists are responding to problems that they perceive with the 'new world' order. Their actions have potentially serious political and security implications. According to the US State Department, terrorist attacks around the world rose by 43% in 1999, with terrorist groups increasingly motivated by religious concerns rather than political ideology.

Impact of globalisation

Economic globalisation and the threat that it poses to local cultures and identities is another potential source of identity-based conflict that increasingly cannot be ignored. It can manifest itself in several ways. In some cases it is leading to violent conflict between different ethnic groups within the same country, the Chiapas rebellion in Mexico being one example, where the largely indigenous population of Chiapas is supporting the Zapatista Liberation Army. In others, it is leading to a resurgence in religious fundamentalism, as outlined above and/or a rise in nationalism, targeted against the threat – real and perceived – of western dominance.

Business has a role to play in helping to address these issues of identity. As employers of people from different ethnic and religious groups, as marketers to customers of different ethnicities and as members of multi-ethnic communities, companies can play an important role in either exacerbating identity-based tensions or helping to reduce them by encouraging ethnic diversity and tolerance.

IDENTITY – The potential influence of business

✓ **Good if companies** undertake efforts to increase tolerance and diversity in the workplace and more widely in their host countries and communities via activities such as: multi-ethnic hiring policies and work teams; taking a responsible approach to the marketing of western products and services in different countries; supporting cause related marketing and community investment projects that encourage tolerance and ethnic diversity; and advocating for an open media and active civic society.

✗ **Bad if companies carry** out policies that exacerbate identity issues, for example: discrimination in the workplace lack of respect for indigenous communities; marketing products and services that undermine local cultures; or facilitating insensitive resettlement programmes which exclude a particular ethnic group from access to resources or livelihood opportunities.

Ideology-based causes of conflict

We have just completed an 80-year-long experiment comparing two systems of wealth creation and concluded that the capitalist system actually does create wealth more effectively; but the experiment has not yet established that the capitalist system distributes wealth any better, or even well, in the long term.... As long as millions of people feel that they have no stake in our system of wealth creation and that they can't survive within it, that structure will be at risk.

Peter Schwartz and Blair Gibb, When Good Companies do Bad Things, 1999

During the Cold War, all conflicts fitted, or seemed to fit, a pattern of a global struggle of capitalism versus communism. Yet most of them had deep-seated local causes. They were turned into proxy wars by the superpowers. ...The communist and capitalist ideologies provided universal touchstones for motive and involvement.

War, money and survival, International Committee of the Red Cross, 2000

IDEOLOGY – The potential influence of business:

✓ **Good if companies are willing to accept that they have a role to play in promoting poverty alleviation and social cohesion. Also if the private sector can demonstrate that capitalism is not about the exploitation of people and that its benefits can reach poorer countries and communities if consciously directed to do so.**

✗ **Bad if companies and their leaders are not sensitive to ongoing ideological concerns about the impacts of global capitalism and are arrogant about the 'triumph of capitalism', especially in the face of local poverty and traditional cultures.**

The conflict between the ideologies of communism and capitalism was the defining feature of the international security agenda for almost 50 years. This Cold War framework resulted in the formation of economic and military blocs, high military expenditures by the superpowers and proxy wars between or within 'client' states in Africa, Asia and Latin America. In the 1960s and 1970s many companies operating in developing countries were caught up in this framework. The greatest political risk they faced was nationalisation of their assets or at the least, heavy-handed government controls on their operations.

Although clearly not as important as it used to be from a geo-political perspective, elements of this tension still manifest themselves in many internal conflicts. This can result in violent actions targeted specifically against individual companies or investment projects that are viewed as 'standard-bearers' of western capitalism and cultural imperialism, exploiting a country's strategic assets and undermining its local cultures. In other cases it manifests itself as a more general backlash against global capitalism and the unequal benefits of this process. Whether this is illustrated by guerrilla movements fighting against foreign investment and free-market policies, as in Colombia, or by the growing tensions and violence created by anti-capitalism activists in the west, companies cannot afford to ignore this tension. Although there appears little likelihood of communism reasserting itself, there are clear signs of a growing sense of nationalism and anti-Western sentiments in a number of former communist regimes, with Russia being an obvious case.

As with identity-based conflicts, the private sector (especially multinational companies) can have both a negative and positive impact in this area. Failure by the public and private sector, especially in western countries, to address growing concerns about the values that underpin the global capitalist economy could lead to violent repercussions from increased nationalism, fundamentalism and activism.

Governance-based causes of conflict

In all societies, competition on access to essential resources and differences over political, religious or other beliefs is common. These can generate conflict. But societies have also learnt constructive and peaceful ways to manage such conflict, usually through arrangements for mediation and democratic representation which promote respect for human rights of all citizens. When such systems fail, or do not exist, conflict can lead to violence.

Clare Short, Secretary of State for International Development, UK, 1999

Governance can be defined as the framework through which political, economic, social and administrative authority or power is controlled and distributed. In today's world this framework consists of a wide variety of mechanisms, processes, institutions and relationships through which individual citizens, groups and organisations can express their interests, exercise their rights and responsibilities, and mediate their differences. Violent conflict can occur when these systems are either:

- **Weak** – in the sense that the state lacks the resources and administrative capabilities to carry out its core functions and is unable to create an enabling environment for other actors to play an effective role; and/or
- **Lacking in legitimacy** – in the sense that the government does not reflect the values or satisfy the needs of the people over whom it exercises authority.

Many developing or transition economies face the challenge of weak governance in that their governments lack the tax bases, resources and administrative capabilities to effectively undertake their core functions. Even in such situations, violent conflict is not an automatic outcome. It becomes increasingly likely, however, where the government is lacking in legitimacy and where there are other structural failures such as:

- non-democratic, authoritarian regimes;
- lack of other forms of public participation;
- serious inequities in the distribution of resources and livelihood opportunities;
- lack of independent systems of law, justice and mediation;
- breakdown in traditional mediation mechanisms;
- unaccountable or undisciplined security forces;
- state-sponsored or condoned human rights abuses;
- state-sponsored terrorism;
- corruption and cronyism;
- unreasonable press controls; and
- 'state failure' leading to the loss of national identity and the emergence of strong and sometimes aggressive local leadership factions and warlords.

**GOVERNANCE –
The potential influence
of business:**

✔ **Good if companies** engage in institution building, the creation or maintenance of social capital, support for open civil societies and a free press, and responsible policy dialogue on key development issues

✘ **Bad if companies** collude with and support corrupt regimes, undertake activities that weaken local institutions and social structures.

Any or all of these will not only make it impossible for a government to undertake its core functions in an effective, efficient and equitable manner, but will also seriously undermine the legitimacy of the government amongst its citizens. This in turn will create the conditions for violent conflict.

Most companies argue that they cannot be held responsible for the ability or inability of a government to fulfil its core functions, or for a government's legitimacy amongst its people. To a large extent this is correct. Business cannot, however, claim that it has absolutely no role to play in influencing the nature of governance. There are numerous examples, both historic and contemporary, of companies 'propping-up' corrupt and illegitimate regimes through providing the economic means and other indirect support structures that such regimes need. At the same time, there are examples of companies and business associations encouraging more competent and credible governance through advocacy activities and practical initiatives such as supporting programmes to develop administrative skills.

b) Triggers

The four underlying causes serve to create the conditions for violent conflict. It is often a trigger – a single event or series of events – that leads to actual violence. Obviously all countries, including well-established democracies, experience some of these underlying causes. It is the ability of a country and its systems of governance to mediate between areas of tension and to effectively respond to violent triggers, that prevents the emergence of sustained violent conflict. The weaker the systems of governance and participation, the more likely that a trigger will lead to violence.

Some of the triggers that have moved conflict-prone situations to conditions of violent conflict in recent years include the following:

CAUSES AND TRIGGERS OF CONFLICT
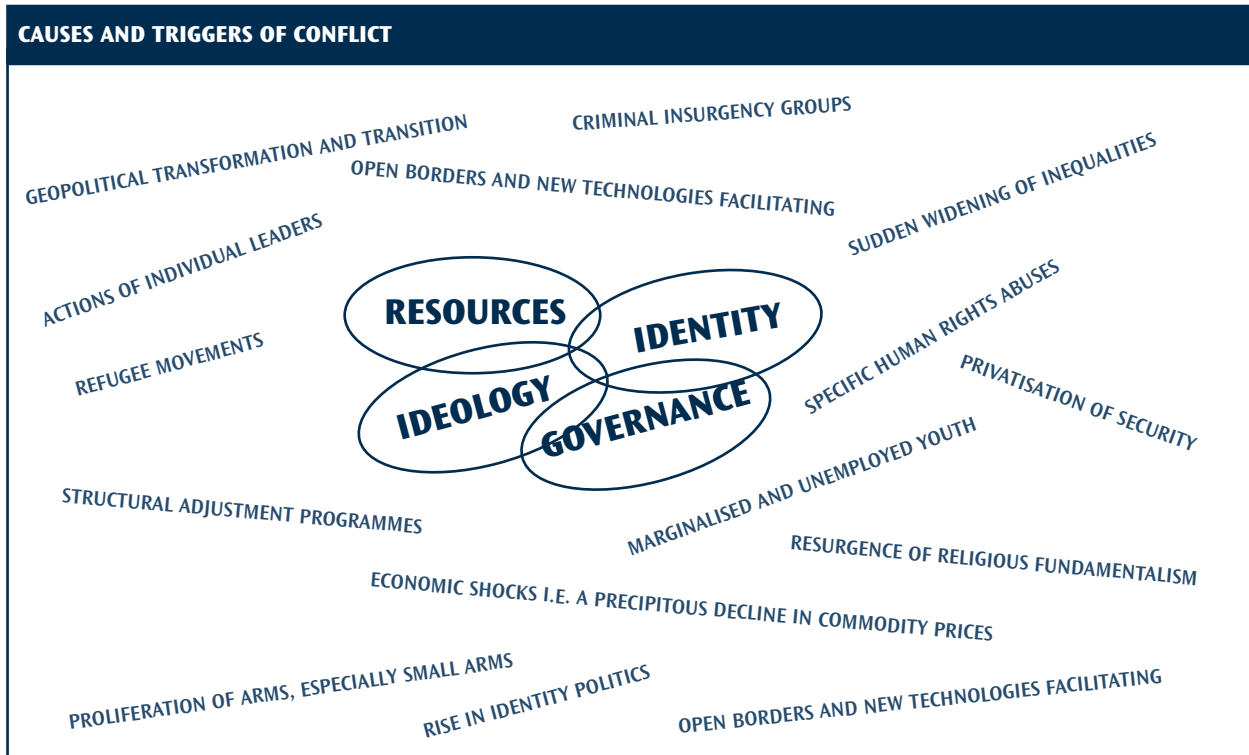
Over the past decade the process of globalisation has affected all four underlying causes of conflict and a number of these triggers. Some of its implications for conflict are outlined on the opposite page.

Linked to this, more work has been carried out in recent years on the complex relationships between economics and conflict. In a paper entitled *Doing Well out of War*, Paul Collier of the World Bank argues that; 'The discourse on conflict tends to be dominated by group grievances beneath which inter-group hatreds lurk, often traced back through history. I have investigated statistically the global pattern of large-scale civil conflict since 1965, expecting to find a close relationship between measures of these hatreds and grievances and the incidence of conflict. Instead, I found that economic agendas appear to be central to understanding why civil wars get going. Conflicts are far more likely to be caused by economic opportunities than by grievance.' [16]

The central role of economic factors in many current conflicts has important implications for the private sector as it becomes a more active player in many emerging markets around the world.

PERSPECTIVES ON GLOBALISATION and CONFLICT

The process of globalisation has proved to be a 'mixed bag' in terms of human security and conflict. In some situations it has created the conditions for increased conflict and in others it has played an important role in conflict prevention and resolution. The following statements from international agencies and national governments capture a few of the complexities in the link between globalisation and conflict.

Globalisation has a number of implications for global and national security, some positive, some negative. Global market forces can generate wealth and spread prosperity, but where development is uneven the result can be increased political tensions and risks of instability... Many commentators see an important association between the spread of economic liberalisation, which is one of the hallmarks of globalisation and the expansion of political liberalism... insofar as the expansion of market forces facilitates the emergence of democracy, globalisation has a positive impact on global security... Globalisation also has a dark side. Global demand for particular commodities, such as timber, diamonds and drugs, has provided the funds that have allowed warring factions to sustain fighting over many years. The same internet that has facilitated the spread of human rights and good governance norms, has also been a conduit for propagating intolerance and has diffused information necessary for building weapons of terror.

<div align="right">Report of the Secretary General to the United Nations General Assembly, 1999</div>

Globalisation expands the opportunities for unprecedented human advance for some but shrinks those opportunities for others and erodes human security. It is integrating economy, culture and governance, but fragmenting societies. Driven by commercial market forces, globalisation in this era seeks to promote economic efficiency, generate growth and yield profits. But it misses out on the goals of equity, poverty eradication and enhanced human security... The challenge for globalisation in the new century is not to stop the expansion of global markets. The challenge is to find the rules and institutions for stronger governance – local, national, regional and global – to preserve the advantages of global markets and competition, but also to provide enough space for human, community and environmental resources to ensure that globalisation works for people – not just for profits.

<div align="right">Human Development Report, United Nations Development Programme, 1999</div>

Cold war rivalries kept the lid on conflicts during the decades between independence and the current era. But the advent of the 'global village,' coinciding with the end of the Cold War, brought a change. Suddenly, the Eritrean diaspora could transcend national boundaries as readily as did the marketing of Coca-Cola. This makes for a very different view of state-building, identity formation, and the market-place. In the contemporary world, international trade replaces colonial imperialism, and security is everyone's concern, from impoverished citizen to multinational investor. Advances in communications technology and the ease of international financial flows bring people, ideas, goods, and services more readily together in ways that can integrate or fragment societies.

<div align="right">Security, Poverty Reduction and Sustainable Development,
The World Bank and Belgian Ministry for Foreign Affairs, 1999</div>

Although globalisation has brought greater general wellbeing, it has also led to a dramatic decline in wellbeing in certain areas. Growing income disparities within and between countries has also contributed to heightening the risk of conflict. This, combined with the challenge to traditional values that globalisation often entails, creates a breeding ground for political and cultural extremism. While the tensions that develop are often expressed in ethnic or religious terms, the underlying causes are economic, i.e. related to the locus of economic power and political i.e. concerned with real participation in the exercise of power.

<div align="right">Preventing Violent Conflict, The Swedish Ministry for Foreign Affairs, 1999</div>
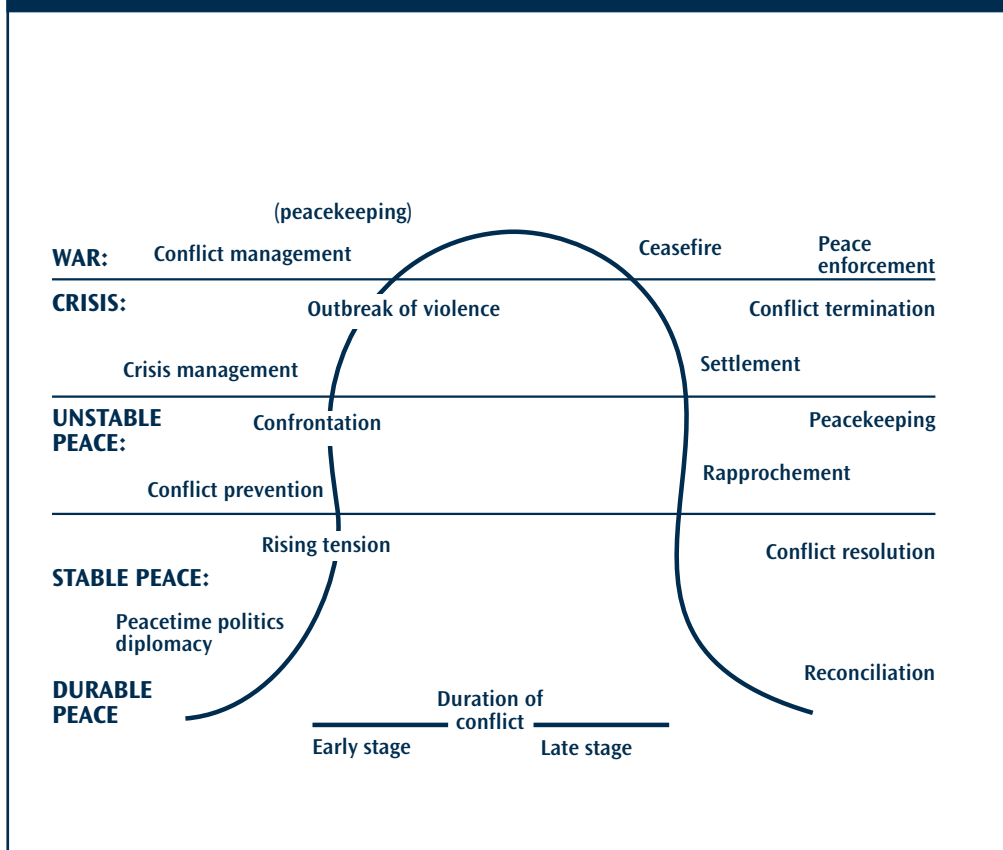
?

At what stage is the conflict?

Is the conflict already at a crisis situation or is the company facing a situation of potential conflict or post-conflict reconstruction and reconciliation? What are the types of possible intervention that the company can undertake in each case?

All categorisations of conflict are essentially arbitrary. Reality does not allow for neat borders. 'Post-conflict' situations are often, not really 'post' as conflict continues to simmer beneath the surface. Peace-building is not really functionally distinct from conflict prevention...still we need categories to define activities.

Partnering for Peace: A Unified Field Approach,

Allan Gerson, Council on Foreign Relations, 2000

The risks and responsibilities that a company will face in conflict-prone or conflict-ridden situations will depend not only on the causes of conflict, but also on the stage of the conflict. All countries are somewhere along a peace-conflict continuum as illustrated in the diagram below.

STAGES OF INTERVENTION ALONG THE PEACE-WAR CONTINUUM

(peacekeeping)

WAR: Conflict management · Ceasefire · Peace enforcement

CRISIS: Outbreak of violence · Conflict termination

Crisis management · Settlement

UNSTABLE PEACE: Confrontation · Peacekeeping

Conflict prevention · Rapprochement

Rising tension · Conflict resolution

STABLE PEACE:

Peacetime politics diplomacy

DURABLE PEACE · Reconciliation

Duration of conflict

Early stage · Late stage

Source: "Civil Wars, Civil Peace: an introduction to conflict resolution" by Kumar Rupesinghe with Sanam Naraghi Anderlini (1998)

Different stages require fundamentally different types of intervention and risk management by all the actors involved, including business. Three broad stages and types of intervention strategy provide a useful framework for analysis and action. They are as follows:

- **Pre-conflict or conflict free** where the focus is on conflict prevention and long-term socio-economic development and peace building.
- **Conflict zone** where the focus is on crisis management and humanitarian relief, whilst continuing to carry out long-term peace building initiatives wherever possible and engaging in diplomacy and peace negotiations aimed towards resolution.
- **Post-conflict** where the focus is on reconstruction and reconciliation with long term peace building initiatives as a core element.

There are close and complex linkages between each stage. Each shares common characteristics and can benefit from some of the same intervention tools. For example, although the need for 'crisis management' is particularly pressing in the second stage, there is an element of having to deal with 'crisis' during the other two stages as well. This takes the form of having to avert impending crisis as a pre-conflict period moves towards violent conflict and having to deal with the repeated cycles of violence and crisis that often occur in post-conflict situations. Intervention activities also need to be focused on longer-term socio-economic development at every stage. This is obviously much more difficult to achieve when violent conflict is actually occurring, but it needs to be an underlying goal in any approach to conflict prevention and resolution. The private sector has an especially important role to play in this process of socio-economic development.

Despite the blurred distinctions and close linkages between each stage, it is useful to view the three stages separately to analyse what role business and other actors can play. Some of the key issues for business and others to consider are as follows:

a) Pre-conflict or conflict free – prevention strategies

More effective prevention strategies would not only save tens of billions of dollars, but hundreds of thousands of lives as well. Funds currently spent on intervention and relief could be devoted to enhancing equitable and sustainable development instead, which would further reduce the risks of war and disaster. Building a culture of prevention is not easy however. While the costs of prevention have to be paid in the present, its benefits lie in the distant future.

UN Secretary General, Kofi Annan, Annual Report to the UN General Assembly, 1999

This stage can be viewed at two distinct levels:

- In countries that are experiencing a **stable peace** i.e. which may have potential conflicts but are not high-risk, the type of action needed is ongoing and systematic peace building and development that addresses any root causes of conflict and minimises the potential of these to flare into violence. Such peace building should focus on creating: a framework for good governance (including an independent judiciary); an open and vibrant civil society and media; an inclusive process of wealth creation; and tolerance of ethnic diversity. The private sector has a potential role to play in each of these areas through its core business activities, social investment programmes and engagement in policy dialogue and civic institution building.
- In higher risk, **conflict prone situations,** the types of intervention needed include all of the above, as well as activities such as preventative diplomacy, fact-finding and mediation missions, peace-keeping operations, arms embargoes, economic sanctions and military deployment and disarmament to tackle specific conflict triggers and to calm high-tension situations. The private sector has a role to play in a few of these areas. For example, upholding economic sanctions, especially if these have been

agreed by the UN system. There is also a possible role in preventative diplomacy for citizen diplomats, including business people, although this has numerous challenges as outlined in Part 5. Most companies, however, have a minimal role in areas such as peacekeeping operations and military deployment, other than those companies that provide logistical support services as part of their core business activities. The use of early warning systems, based on agreed sets of risk indicators, has gained increased acceptance by the international community in recent years. Business can play a potential role here in providing vital information for such systems, especially companies operating in remote communities.

b) Conflict zone – crisis management strategies

Once a conflict prone situation escalates into violence, intervention efforts must focus on managing the crisis and negotiating for peace. Most of the intervention strategies listed above have applicability in this stage of conflict. The areas in which the private sector can play a practical role include the following:

- the responsible management of security arrangements for the company's operations, employees and other stakeholders to minimise the risks of human rights abuses occurring;
- commercial or philanthropic support for emergency humanitarian relief;
- engagement in efforts at resolution, involving diplomacy and peace negotiations;
- on-going efforts, where possible, at long-term socio-economic development projects.

c) Post-conflict – reconstruction and reconciliation strategies

The challenge of rebuilding war-torn societies is infinitely more difficult and complex than is generally recognised. It exceeds by far the challenges of 'normal' development processes, which, in countries emerging from war, are amplified by the legacy of the conflict (physical destruction, lack of resources and manpower, institutional fragility, political volatility, social trauma), by the urgency of the problems, and by the simultaneous challenges of humanitarian relief and of military security.

War Torn Societies Project, UNRISD, 1998

The transition to peace for countries that have faced prolonged periods of unrest or outright civil war is usually a long and tortuous process, accompanied by repeated cycles of violence. There is growing recognition by the United Nations, World Bank and donor governments that post-conflict support must simultaneously address economic, social, military and political issues.

The World Bank's strategy on post-conflict reconstruction has two overall objectives – to facilitate the transition to sustainable peace after hostilities have ceased and to support economic and social development. It outlines an integrated package of assistance in the following areas [17]:

- **Jump-start the economy** through investment in key productive sectors; create the conditions for resumption of trade, savings and domestic and foreign investment; promote macroeconomic stabilisation, rehabilitation of financial institutions and restoration of appropriate legal and regulatory frameworks.
- **Re-establish the framework of governance** i.e. strengthen government institutions; restore law and order; and enable the organisations of civil society to work effectively.
- **Repair important physical infrastructure** including key transport, communications and utility networks.
- **Rebuild and maintain key social infrastructure** i.e. financing education and health, including recurrent costs.
- **Target assistance to the war-affected** i.e. reintegration of displaced populations; demobilisation, retraining and reintegration of ex-combatants; revitalisation of local

communities most disrupted by conflict (through credit lines, to agriculture and micro-enterprises etc.); and support vulnerable groups such as female headed households.

- **Support land mine action programmes,** where relevant, including mine surveys, demining of key infrastructure as part of comprehensive development strategies for supporting a return to normal life of populations living in mine polluted areas.
- **Normalise financial borrowing arrangements** i.e. planning a workout of arrears, rescheduling of debt and the longer term path to financial normalisation.

The private sector – both formal and informal, local and foreign – has a potential role to play in most of the above areas. Most notably in helping to 'jump-start' the economy and repairing key infrastructure, but also in areas such as providing tax revenues for government expenditure, retraining ex-combatants, rebuilding social capital and engaging with government and other actors in civil society on a public dialogue about the country's needs. As a recent report by the World Bank and South Africa's Centre for Conflict Resolution pointed out, 'the presence of the private sector is necessary to help rebuild the economy and foster growth. Indirectly, its existence also augments stocks of social capital through repeated transactions and contract agreements that eventually lead to increased levels of trust.' [18]

Local businesses, especially small and medium-sized enterprises, play a vital role in post-conflict reconstruction. Such enterprises have a particularly important role to play in job creation. In any country, most new jobs are created by this sector. The creation of jobs and livelihood opportunities can be especially crucial, however, in rebuilding conflict-ridden economies and providing viable and legal livelihood opportunities for former combatants. The informal sector, consisting mainly of micro-enterprises, is a particularly important source of job creation in many post-conflict countries. Targeted support for micro-enterprise initiatives can help to spur growth in this sector. The informal sector may, however, bring its own problems in that it operates outside the law. As the War-Torn Societies Project noted in the case of Mozambique [19] 'the rapid development of the informal sector has significantly contributed to economic development in the immediate post-war period. It has, at the same time, led to a rapidly growing criminal sector of the economy which escapes control and taxation.' Another example of the fact that commercial activities – both large scale and micro-enterprises – can be part of the problem or part of the solution depending on how they are carried out and governed.

Resource-based causes of conflict

We cannot assume that the creation of wealth is a benign activity in and of itself. Creating wealth, particularly through exploiting non-renewable and highly valuable resources, almost always results in a struggle for control over that wealth and history proves that this struggle has often been violent.

Sophia Tickell, Business Policy Adviser, Oxfam

Access to, and the control of, natural resources have been major sources of wealth creation and conflict throughout history. They remain so today, especially in the world's developing economies where natural resources still represent a high percentage of the nation's strategic assets and sources of livelihood. Some of the factors that private sector companies need to think about in this area include:

RESOURCES – The potential influence of business:

✓ **Good if companies can help to develop sustainable local livelihoods, improve access to basic needs (water, food etc) and if they are sensitive to the way that strategic resources are exploited. For example: developing good relations with local communities in the areas where the company operates; minimising the environmental degradation and social disruption of these operations; and influencing how the public revenues from these strategic resources are used and distributed and ensuring that any resettlement programmes are carried out with sensitivity and in consultation with the affected communities.**

✗ **Bad if companies are involved in uncompetitive or unfair patronage systems or if the manner in which they develop natural resources undermines the ability of local communities to meet their basic needs, for example, as a result of environmental degradation or bad resettlement schemes, and does not contribute to the wider socio-economic development of the community, region or country.**

Exploitation of strategic resources

The relevance of business as a potential source of resource-based conflict has grown as the private sector plays an increasingly central role in developing the renewable and non-renewable resources of many countries. These strategic resources range from oil and minerals to water, which is predicted to become a major source of conflict in the 21st century. The following questions need to be asked: How is the ownership of these resources structured? If they are still owned by governments, with private companies operating under licensing agreements or joint ventures, how much of the economic benefits from their exploitation are distributed by the government back to local communities or allocated to socio-economic development? Can the company influence this distribution in any way to make it fairer? Is the development of these resources either purposely or inadvertently funding warring factions in a particular conflict or underpinning war economies? How transparent and non-corrupt are systems of licensing? Is there an open-bid process or strong political patronage?

Ability to meet basic needs

In many poorer countries people rely on access to natural resources – especially land and water – for their livelihoods and often survival. Companies need to assess whether their activities are undermining such access. Are poor people being forced off their land by governments and/or private operators, to make way for large-scale development either of the land, or of mineral and oil supplies beneath it? Are they losing access to water supplies due to the building of dams or reallocation of limited water for commercial purposes? If so, are private investors working with governments, funding agencies and the affected communities, to limit this loss of access to resources and to find alternative livelihood opportunities?

Environmental degradation

There are obviously many situations where private operators are not directly responsible for limiting or destroying access to basic resources. Rapid population growth, recurrent droughts, misconceived development policies and changes in land tenure systems are common factors that lead to environmental degradation, undermine access to basic resources and create conditions for conflict. Even in these situations, however, the private sector may be complicit in exacerbating the impacts of these other factors or failing to ameliorate them when it has the ability to do so. Can a major investor help to improve the land rights of indigenous people, for example, or is it actively undermining these? Is pollution from a business activity destroying local livelihoods?

In most cases, violent conflict occurs not as a result of access to resources *per se*, but as a result of *unequal* access or the struggle to *control* access. Leading from this, it is often an increase in poverty or high levels of inequality, rather than poverty itself, that leads to serious conflict.

Business risks and responsibilities will also vary depending on the location of the conflict relative to the company's spheres of control, influence and interest. These can be summarised as follows:

LOCATION OF CONFLICT

Lower risk

Higher risk

Higher responsibility

Along the local supply or distribution chain

Along the global supply or distribution chains

In the workplace or directly affecting the company's workforce

In 'faraway' places

In surrounding communities

In the host region or country

Lower responsibility
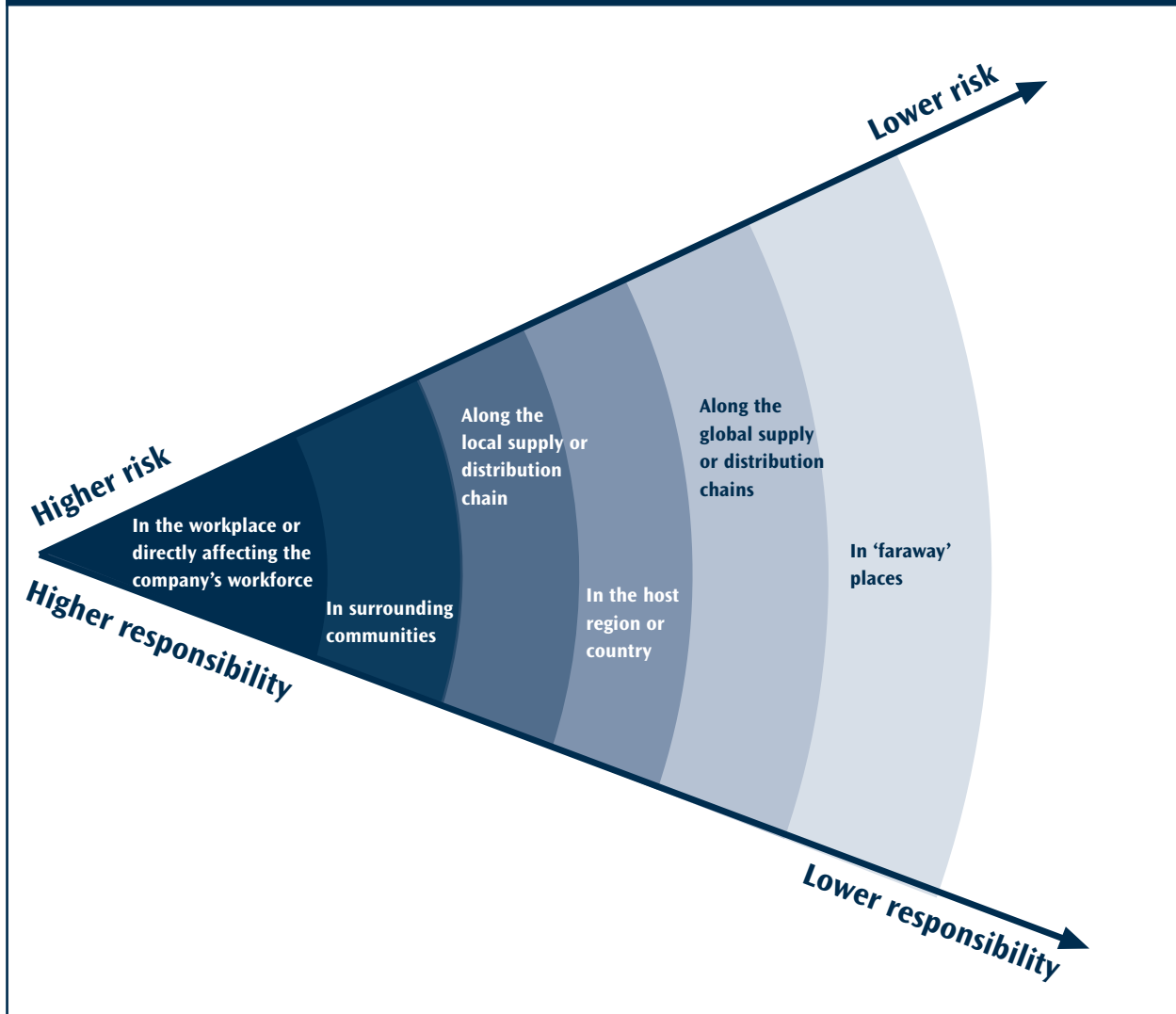
In most cases, the closer the conflict is to the company's direct sphere of influence and interest, the greater is the corporate responsibility to take action and the greater the costs and risks of not taking action. There is clearly a much greater imperative, for example, for a company to take direct action to prevent or tackle conflict that is affecting, or likely to affect, its employees or local communities. Having said this, more remote conflicts can still seriously damage a company's business prospects and may therefore be worth the company engaging in prevention or resolution.

2. THE ACTORS

Who are the other actors?

Who are the other actors and what are their roles, power and positioning relative to both the conflict and the company? How best can the company engage with them either in dialogue or undertaking joint advocacy or practical action?

Conflict · Company · Actors
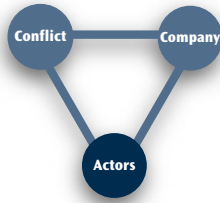
The status, power and capacity of other actors in a conflict situation and the relationship between these actors and the business community, are also critical factors in determining what role business will play in exacerbating, preventing or resolving conflict. Some of the key actors for business to analyse are as follows:

2.1 Government

It cannot be emphasised enough that governments bear the greatest responsibility to prevent deadly conflict. The Commission believes, that much of what private and non-governmental sectors and intergovernmental organisations can do to help prevent deadly conflict will be aided or impeded by the actions of states.

Carnegie Commission on Preventing Deadly Conflict, 1997

The relationship between business and government – at national, regional and local levels – is a critical factor in determining the legitimacy and acceptance of business by citizens. This is the case for the private sector as a whole, but especially for major players such as those exploiting strategic resources or undertaking large-scale infrastructure investments.

As outlined elsewhere, governments in many transition economies may lack the necessary resources or capacity to carry out their core functions. In such cases, donors and other actors such as the private sector, can play a positive role in preventing conflict by helping to strengthen government institutions through activities such as capacity building, technical assistance and in the case of business, paying taxes.

In other situations, governments may lack legitimacy due to corruption and cronyism. In such cases, the private sector can potentially play a positive role by encouraging better governance. Sometimes, however, private operators are a direct cause of the problem. The lack of probity and accountability in relationships between government officials and private operators is a common feature in many emerging markets and many situations of conflict.

Even companies operating with the greatest of probity may still get 'caught in the middle' of power struggles between national and regional level governments. Equally, they are sometimes 'caught in the middle' of grievances between the government and local communities. The Niger Delta in Nigeria is one example where this has happened. In such situations, it is increasingly difficult for a major private investor to claim it has no responsibility in influencing these intra-government or government-community relationships. At the same time, NGOs and the general public may deem that an individual company, or the business community in general, has too much influence in public sector relationships and decision-making. This is a delicate balancing act for companies to manage, even in countries with democratically elected governments, let alone those without.

Another issue for foreign investors to consider is the relationship between their host government, neighbouring governments and their home-base government. In regions of strategic importance, for example the Caucasus, this can be a complex and fraught set of relationships, with the company once again 'caught in the middle'. In certain situations, OECD-based companies can work more closely with their home-country

governments to exert positive influence on improving governance in conflict regions and to address a variety of development and political issues. Some examples of where this is starting to happen are provided on page 125.

2.2 Legal opposition parties

In many conflict sensitive situations, the relationship between the government and opposition parties is a tense and violent one. Governments may be carrying out repressive acts of intimidation against opposition politicians and members of their parties. Equally, opposition parties may be encouraging civil action such as labour strikes, public demonstrations and sabotage of strategic infrastructure. Companies can get 'caught in the middle' of these activities and need to make well-informed decisions on how they interact with the opposition both in public and in private.

2.3 Lawless groups: guerrillas, warlords and paramilitaries

In a number of conflict situations national and foreign companies have regular contact (both voluntary and involuntary) with guerrilla groups, local warlords and/or paramilitaries (quasi official militias). In some cases this contact involves paying 'protection money' to ensure the security of employees and operations and/or ransoms for kidnapped staff. In others it involves illicit commercial dealings and in others attempts at 'citizen diplomacy'. This represents one of the most sensitive areas for a legitimate company operating in a conflict zone. On the one hand, it cannot ignore these players. On the other they are operating 'beyond the law'. This is complicated enough when the current government is not democratically elected or is not seen as legitimate by large groups of the population. It is even more so when the government has been elected through a reasonably fair and open election process. In some cases a local warlord or guerrilla group will have more power and authority in a particular region or community than the official government. Certain parts of Colombia offer an example of this. Companies operating in such an area must then make the decision on whether to stay or disinvest, and if the former who to develop relationships with and how.

2.4 Traditional leaders

Traditional, often community-based leaders, still play an important role in many countries. This is especially the case where there are indigenous populations. In some situations there is a clear local leader with whom a company can establish regular dialogue and consultation processes. In many cases, however, there are local rivalries not only between different traditional leaders, but also between these and the government authorities. Once again, it is all too easy for a company to get 'caught in the middle' when disputes arise. Knowing who the different leaders are and understanding their power bases, interests and grievances can be an important factor in averting conflict or avoiding corporate complicity in a particular conflict situation.

2.5 Non-governmental organisations – national and international

NGOs at their best provide a vast array of human services unmatched by either government or the market, and they are self-designated advocates for action on virtually all matters of public concern.

The Carnegie Commission on the Prevention of Deadly Conflict, 1997

The relationship between companies and non-governmental organisations operating in conflict sensitive areas has undergone some major changes in recent years. At the risk of over-simplicity, the diagram on page 52 illustrates how most business-NGO relationships in the past have been characterised by either confrontation or philanthropic funding. Both of these still occur and still have an important role to play in shaping the way that companies and NGOs meet their core objectives and their responsibilities, especially in poorer countries. At the same time, a number of major companies, development and human rights NGOs have started to establish more

dialogue-based relationships and in certain cases operational and even advocacy focused partnerships. In part this reflects mutual acceptance that there are areas of common interest in the security agenda, even if objectives and responsibilities are different. It also reflects growing understanding of the complexities involved in peace building and conflict resolution and the need to pool limited resources and skills in certain areas. This new approach to dialogue is also a response by business to the effectiveness of various campaigns targeted at specific industries and companies by organisations such as Human Rights Watch, Oxfam, Amnesty International, the World Development Movement, the Free Burma Coalition and Global Witness.

These relationships offer enormous opportunities for developing innovative approaches in areas of conflict. Having said this, they are still fraught with both operational and strategic challenges which consume management time and resources on both sides. They are likely to become increasingly important, however, for any company that is operating in emerging markets and especially conflict sensitive areas.

The *Carnegie Commission on the Prevention of Deadly Conflict* identifies three broad categories of NGOs that offer especially important contributions in areas of conflict. Each of these groups can either be a potential partner for business or a potential campaigner against business:
- Human rights and other advocacy groups
- Humanitarian and development organisations
- Track two NGOs with an explicit focus on conflict prevention and resolution, that can help to open the way to more formal peace negotiation processes.

Some of the activities that such NGOs undertake that are of particular relevance to conflict prevention and resolution include the following [20]:
- Monitoring conflicts and human rights and providing early warning – made possible by their close contacts with local communities;
- Carrying out education, lobbying and advocacy activities around issues such as human rights, ethnic tolerance, free press, anti-corruption, responsible business practices etc;
- Serving as a neutral forum to convene adversarial parties;
- Undertaking mediation, capacity building and other conflict resolution activities;
- Helping to strengthen civil society institutions and indigenous capacities for coping with on-going conflicts;
- Delivering humanitarian services; and
- Undertaking long-term development programmes.

One key issue for foreign investors to consider is how to identify and develop relationships with appropriate indigenous NGOs in the countries in which they are operating. Some of these will be well known national actors and can be relatively easily identified. Many will be local grassroots organisations (see 2.6). In some countries indigenous NGOs will be an accepted part of national life. In others, with repressive governments for example, this may not be the case. In such situations, NGOs may be controversial organisations. Their work may be perceived as threatening or destabilising and the government's attitude to them may vary between suspicion and outright hostility. The idea of business communicating, let alone co-operating, with them may be discouraged. In addition, the NGOs themselves may be suspicious of entering into dialogue with companies that they see as bearing some responsibility for their society's problems.

Although fraught with complexity, companies cannot afford to ignore the growing role played by national and international NGOs and the need to engage more proactively with them through dialogue or partnership.

EVOLVING BUSINESS – NGO RELATIONSHIPS

CONFRONTATION

PHILANTHROPY

Dialogue and consultation

Innovative funding mechanisms

PARTNERSHIP

SHAPING THE ENABLING ENVIRONMENT
i.e. awareness raising, advocacy and policy dialogue

MUTUAL LEARNING & CAPACITY BUILDING

DELIVERING PRACTICAL SOLUTIONS
i.e. resource mobilisation and joint project implementation

Source: Creating the Enabling Environment, PWBLF in collaboration with the World Bank and UNDP, 2000

2.6 Grassroots community-based organisations

Community-based organisations are especially important for companies operating in remote locations, but are of relevance to any company that wants to minimise conflict and establish mutually beneficial relationships with its local communities. As with traditional leaders, the key challenge for a company is to select which local organisations to work with and how. This is especially difficult in situations experiencing conflict, major change (for example a large new investment) and/or high levels of inequality. In such situations local groups are likely to be politicised and often competitive for both resources and political access. As discussed in other sections, there is a clear need for companies to either develop the necessary in-house skills to undertake effective consultation and analysis and/or identify trusted intermediaries (individuals or organisations) to help them interact with appropriate local organisations. Asking the advice of national and international NGOs can also be useful.

2.7 Bilateral and multilateral agencies

One of the most dramatic changes in the international development and security field during the past five years has been the increase in outreach between the private sector and inter-governmental organisations (IGOs). These organisations range from bilateral development agencies, such as the United States' USAID and the UK's Department for International Development, to multilateral agencies such as the United Nations, World Bank and European Commission. This trend reflects a similar change in attitudes and understanding of each others' roles as that outlined in the section on NGOs. In an era where there is increasing pressure on international aid budgets and where private operators are becoming key investors in developing countries, the value of finding new ways to mobilise the skills, resources, networks and influence of the private sector is being recognised by both bilateral and

multilateral organisations. Equally, the private sector is recognising the value of closer linkages with these governmental bodies in addressing some of the challenges of operating in emerging markets, especially politically sensitive issues such as bad governance and human rights abuses.

At present, however, most business-IGO relationships occur at the level of respective head offices. A challenge for the future is how to mobilise practical partnerships on the ground, especially in areas of conflict. All too often, the country manager of a multinational, or the head of a large local company doesn't even know his or her UN and World Bank equivalents, except maybe in a social setting. Understanding this group of actors and establishing local links with them is another area where companies need to develop their knowledge base and management capacity.

2.8 Religious groups

In certain conflict situations religious groups play a key role. This is especially so where the conflict has issues of religion or identity as an underlying cause. In some cases religious leaders will be playing a role in inciting violence and in others they will be dedicated to conflict prevention and resolution. Relationship building by business can therefore be a high risk process. At the very least, however, companies need to be aware of key religious players, what their role and power base is, and if or how the company can most appropriately interact with them.

The role of religious leaders is particularly beneficial when leaders from different faiths come together and such coalitions offer a real opportunity for business engagement. One example of this occurring was South Africa's *National Peace Accord*, a partnership between business, labour and religious leaders in South Africa during the 1990s (see page 112).

2.9 The media

As with other actors, the role of the media in a conflict situation will obviously vary depending on its power base and objectives. In many conflict prone countries there are restrictions on a free, open and impartial media and the business sector needs to decide, either collectively through its representative bodies, or individually in the case of large operators, what, if any position it is going to take on this. For example, should it be trying to influence government to lift media restrictions? Alternatively, should it be supporting non-governmental organisations that focus on communications and advocacy activities in order to counteract a restricted or biased media? Should it be helping to facilitate stories for international journalists? How should it be communicating its own role both within the country and internationally?

Related to this, companies need to understand linkages between the local and international media. They also need to recognise the different and increasingly sophisticated audiences that these media are playing to. In the past it was relatively easy for a company, especially the major players, to give a media interview and assume that the company's word would be accepted. Today, many recipients of corporate information are more demanding and questioning. We have moved from what Shell describes as 'a 'trust me' world, to a 'tell me' world to a 'show me' world [21].

The emergence of new technologies has obvious implications for the relationship between business and the media. The advent of the Internet in particular has created new communications challenges for business, as well as opportunities. In particular, the Internet has become a valuable campaigning tool for pressure groups. As some companies have found to their cost, once information about the company is on the Internet it is difficult to correct, however inaccurate. This challenge is considered in more detail in the section on accountability.

At the end of the day, the media is a tool as much as an actor. It can be used by other actors to promote both peace and violence. Equally, it can be used by business to promote corporate interests or wider societal interests. And increasingly it is used to expose bad business practices – both real and perceived. Developing responsible, professional and systematic media relations is an important factor for any company, but especially for those that are operating in conflict sensitive areas. Again this calls for new skills and competencies.

2.10 Business associations and other companies

There is a strong case to be made for companies operating in conflict prone or ridden societies to undertake collective action. This is especially the case when addressing sensitive issues such as: advocating for improvements in human rights conditions; pushing for better governance structures; calling for a more open media and so on. This action can be undertaken by traditional business associations, for example chambers of commerce, which are representative in nature and often have the benefit of being a mixture of both local and foreign companies. Alternatively, companies can establish more targeted business-led organisations to deal with a specific issue or set of development issues. Some examples of such initiatives in South Africa, Ireland and the Philippines, are reviewed in Part 5. The existence of such business associations or the potential for their creation has important implications for the role that the private sector can play in conflict prevention and resolution.

2.11 Roles for different actors

The diagram on the opposite page illustrates some of the roles in conflict prevention and resolution for different levels and types of actors. It is based on work carried out by Paul Lederach, a leading academic in the field of conflict transformation. Lederach has developed a three level structure for peace-building which illustrates the different roles of various actors at different stages in the process. Although his structure does not include business, it can be usefully adapted to illustrate the potential role that can be played by different levels of management in a multinational company, as well as by local companies (second triangle on the opposite page).

According to Lederach, those best placed to contribute to peace building are the actors positioned in the middle section of the triangle. Part of their role is to ensure that the citizens' voice is heard at the higher levels whilst also educating and guiding the population as a whole. In other words, their impact can be felt both upwards, at a political level, and downwards, at a grassroots or community level. The role of those in the upper tier takes the form of classic diplomacy, including framing the policy agenda. Those at the bottom of the triangle are involved at a personal, individual level helping to heal the scars of the conflict and promoting community level reconciliation.

A similar interpretation can be made for the different levels of management within a typical multinational company. It is often the country or regional managers that bear the immediate burden of dealing with conflict situations, although they rely heavily on support from head office in terms of :
• Providing policy frameworks and operating guidelines; and
• Dealing with international stakeholders and media relations.
They also rely on their local employees and business partners – often small or medium size businesses – to provide links to local communities and grassroots partners.

ROLES FOR DIFFERENT ACTORS IN CONFLICT PREVENTION AND RESOLUTION

Lederach's Triangle Creating coalitions and sharing the burden

Level 1 top leadership
- Military/political leaders
- High publicity/high visibility
- Positional/high stakes

- Peace building
- High-level negotiating
- Ceasefire
- Single personality

Level 2 Middle range leaders
- Respected in society
- Ethnic/religious leaders
- Academics/intellectuals
- Humanitarian leaders (NGOs)

- Problem-solving workshops
- Training conflict resolution
- Peace commissions
- Insider-partial teams

Level 3 Grassroots
- Local leaders
- Indigenous NGOs
- Community groups
- Local health officers
- Refugee camp leaders

- Local peace commissions
- Grassroots training
- Prejudice reduction
- Psycho/social work in postwar trauma

Source: "Civil Wars, Civil Peace: an introduction to conflict resolution" by Kumar Rupesinghe with Sanam Naraghi Anderlini (1998) adapted from Jean Paul Lederach's "Actors and Peacebuilding Foci Across the Affected Populations"

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

- CEO/board directors/chairman
- Corporate level policy and public affairs functions

International level
Engagement with home-base governments, intergovernmental agencies, international NGOs and other companies on policy issues, international guidelines etc.

- Regional/country managers of MNCs
- National company CEOs
- National business associations

National/Regional level
Policy dialogue on public sector reform/taxation/corruption/ private sector laws/banking/ human rights/democratisation

- Business unit managers
- Functional experts i.e. community affairs managers
- Managers of small and medium-sized business enterprises
- Employees

Local level
Managing local impacts and relationships for example, workers rights / community consultations / subcontractors activities / social and environmental impacts / enterprise development / NGO capacity building etc.

Source: Developed by Nick Killick of International Alert

3. THE COMPANY

?

What are the company's characteristics?

How does the company's industry sector, size, history and ownership structure influence its risks and responsibilities in situations of conflict? What are the company's 'spheres of influence' and which management functions or business units will be most effective in addressing conflict issues within these different spheres of influence?
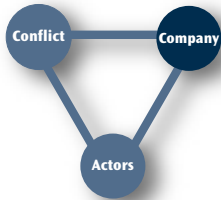
Linked to the nature of the conflict and the role of other actors, the third and final factor that shapes the role of a company in situations of conflict is obviously the characteristics of the company or industry sector in question.

There is a tendency when discussing the role of business in society, or the role of business in conflict, to refer to the private sector as if it were a monolithic community. This is clearly not the case. There are strong distinctions, for example, between the capacities and interests of:

- multinational companies and local companies;
- multinational companies that are direct investors in a conflict sensitive country and those that are physically located elsewhere, but have interests in the country as portfolio investors, or as traders who have supply and distribution relationships with local companies;
- publicly quoted and privately owned enterprises;
- enterprises that operate within the bounds of national and international law and those that carry out activities that are illicit or illegal;
- military or security-focused companies, that provide products and services directly related to armed conflict and violence, and companies that provide non-military products and services, but which may still directly influence the cycle of conflict;
- large-scale companies and medium, small and micro-enterprises.

These different types of commercial enterprise will have different public profiles and a different respect for international rules, resulting in different impacts in any given conflict situation. The following diagram illustrates some examples of these differences.

BUSINESS AS ACTORS IN CONFLICT
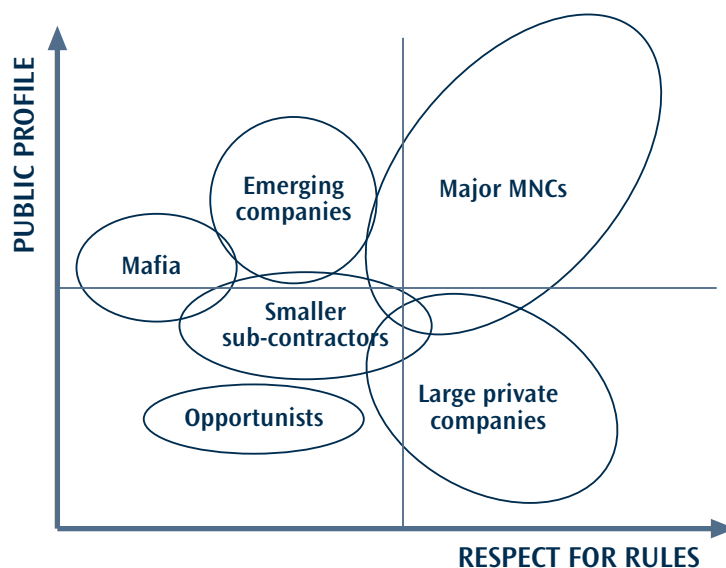
Source: The Prince of Wales Business Leaders Forum

There are obviously numerous private sector actors that are acting in an illegal or illicit way in situations of conflict and usually playing a role in exacerbating violence. Some of the implications of such actors are covered on pages 99 to 100. This report, however, focuses on mainstream, legal companies with legitimate purposes that are investing, trading or operating in conflict sensitive countries. For such companies some of the key factors to consider when analysing their potential impacts are as follows:

3.1 What is the type of industry?

Different industry sectors will clearly face different types and degrees of risk and responsibility in situations of conflict. Three key issues to consider are as follows:

a) How likely are the company's operations to be a potential cause of violent conflict?
'High risk – high responsibility' examples would include companies that are:
- exploiting strategic resources such as oil and minerals, especially in countries with a weak or repressive government;
- undertaking major infrastructure projects, especially those that disrupt local livelihood patterns, interfere with ancestral sites or require resettlement and removal of people from their homes;
- marketing products or services that challenge traditional cultures or local products.

b) How high are the likely costs of conflict to the industry?
Costs will tend to be highest for the companies that have:
- large-scale 'on-the-ground' investments in local plant and machinery;
- rely on local infrastructure (ports, electricity etc) to get their products to market;
- employ staff in areas that are most affected by the conflict, especially in remote communities;
- employ local staff from communities or ethnic groups that are directly caught up in the conflict.

The industry sectors most likely to match this profile are again the extractive and infrastructure industry and possibly certain consumer goods companies with extensive distribution networks in conflict ridden countries.

c) How flexible is the company in terms of withdrawing its business activities (i.e. how easy/ expensive is it for the company to disinvest)?
Once again, the companies that will find it hardest to withdraw, especially in the short-term, will be those with:
- the largest local investments in terms of assets committed; and
- longest investment horizons in terms of timescale;
- for the natural resource-based companies there is the obvious added 'inflexibility' of having to be where the resources are, especially in the case of non-renewables such as oil and minerals.

The diagram on the following page illustrates some of the conflict-related risks and responsibilities of the following industries: extractives (oil, gas and mining); infrastructure; tourism; agribusiness and forestry; finance; the arms industry; and manufacturing, sourcing, marketing and distribution of consumer goods.

INDUSTRY RISK-RESPONSIBILITY PROFILES

Higher risk

Lower risk

Lower responsibility

Higher responsibility

● **tourism**

Unlikely to have direct impacts on creating conflict unless tourist activities severely undermine local cultures or natural environments, but entire tourist destinations can be negatively affected by violence or by terrorism. As the world's largest industry with strong cross-boundary characteristics, tourism has a growing role as a pro-active peace building industry.

● **infrastructure**

Big 'footprint' players with major 'on-the-ground' investment and little flexibility in location with similar challenges to the extractives.

● **extractives** (oil, gas & mining)

Big 'footprint' players with long-term, capital intensive investments, high profile position and minimal flexibility in terms of location. Exploiting strategic resources with high potential of creating conflict over control of and access to resources, unfair distribution of revenues and poor management of security arrangements and community relations.

● **manufacturing and sourcing**

Impacts on conflict unlikely to be major except with human rights violations in the workplace, but risk of factory closure and associated costs in conflict situations.

● **agriculture & forestry**

Medium 'footprint' players which can create conflict over access to basic resources and livelihood opportunities, as a result of land tenure issues, inappropriate use of technology, distortionary pricing structures and environmental damage.

● **marketing & distribution of consumer goods**

May exacerbate conflict by undermining local cultures and markets, or by enhancing gaps in consumption and wealth. Greater flexibility in disinvestment than other sectors, but loss of markets could still be a high cost. There is potential for product donations to assist in crisis situations especially in industries that provide medical supplies, information and communications technology, food and beverages, clothing, vehicles, temporary housing and other types of equipment.

● **financial**

May exacerbate conflict by funding 'war economies', providing safe havens for looted state assets or facilitating money laundering and 'arms deals' – even if this is not intentional. Risks are mostly reputational except where retail networks are affected by conflict. Major financing transactions can be facilitated 'offshore' safely away from the actual conflict.

● **arms industry**

Very high impact on conflict, but often removed from immediate risks in a conflict situation. Growing responsibility to work with governments on codes of conduct for responsible export and use of arms and to explore non-military uses for defence technologies and facilities.

NOTE: Readers interested in gaining further insights into the way different companies and industry sectors think about and respond to conflict, are referred to the Fall 2000 Issue of Harvard International Review and an article entitled *Corporations and Conflict: How Managers think about War.* Written by Jonathan Berman, President of Political and Economic Link Consulting, which advises clients on commercial operations in regions of armed conflict, the article identifies the private sector players most likely to be active in areas experiencing conflict. These are: natural resource firms; infrastructure companies; flight to quality beneficiaries (i.e. companies such as international banks, which benefit from people wanting more secure services and products than can be provided by local companies); firms with expertise in conflict; and firms with expertise in the region.

3.2 What size is the company?

Larger companies are an obvious focus when looking at the role of business in conflict. In general, they control more resources and have more influence than their smaller counterparts. They are more likely to be the cause of disputes over access to resources and they offer a clear target for aggrieved parties and the media. Small and medium-sized companies, however, also have a vitally important role to play in development, especially in the process of livelihood creation, and are therefore key players in peace building and post-conflict situations even if they are less likely to be players in causing the conflict.

3.3 What is the company's historical context?

The company's own history and the history of its investment in a specific country may also provide useful indicators of its potential role in creating, exacerbating or helping to resolve conflict. For example:
- does the company have a values statement and principles of business practice?
- how long have these been applied globally as opposed to only in the company's home market?
- how long has the company been investing in the country in question?
- how important is the particular country or business unit to the company's overall operations and profit?
- what have relations been like between the company's senior executives and relevant political leaders in the past;
- has the company had a community affairs programme in the country in the past and how effective has this been?
- has the company made an effort to employ and train local people over a period of time?

3.4 What is the ownership structure of the company?

The ownership profile of a company or a particular project can also influence its risks and responsibilities in conflict situations. Three key questions to consider in the case of domestic companies are:
- concentration of ownership;
- links between the company's shareholders and government officials or their families; and
- level of foreign ownership.

Foreign-owned companies may face higher risks in conflict-sensitive regions due to factors such as:
- local antagonism towards foreign capital and values;
- less locally-relevant management experience and knowledge of the complexities and issues involved in the local situation and therefore more potential to make life threatening mistakes;
- links to the international media (for example kidnapping the manager of a multinational company will get more coverage internationally for a local cause than kidnapping the manager of a locally owned company).

On a project-specific basis, foreign companies can adopt different financing and management structures to help mitigate political and other types of risk in conflict zones. For example, they can enter into joint ventures with locally-owned or state-owned companies, which may be more acceptable to host communities and governments, although not necessarily so. They can also apply for political risk insurance from commercial providers or sources such as the World Bank's Multilateral Insurance Guarantee Agency (MIGA), which is likely to have an increasingly important role to play in attracting foreign investors to post-conflict regions.

The legal jurisdiction of foreign-owned companies may also have some impact in terms of their potential role in conflict. Companies, such as US-based corporations, that face litigation and criminal lawsuits in their home countries for undertaking activities such as accepting foreign bribes or failing to meet certain labour, human rights or environmental standards, are much less likely to engage in such actions. To the extent that these actions create or exacerbate conflict, such companies are less likely to be a direct cause of conflict than those that are not subject to such legal restraints in their own home countries.

Multinational companies, which increasingly have both multinational operations and a multinational ownership profile are the most likely companies to face international pressures for corporate responsibility, as outlined in the box below.

MULTINATIONAL AND NATIONAL COMPANIES

Multinational companies are an obvious target from the perspective of organisations attempting to gain international media attention and to influence corporate behaviour,. These companies have become important and high profile actors on the global stage and are often major investors in individual countries. This is especially the case for 'big footprint' players – companies in the extractive, infrastructure and heavy industry sectors that make long-term and often substantial investments in their countries and communities of focus. It is also increasingly the case for consumer goods companies with global production and distribution systems and for the financial sector. Many of these companies have global brands and are leaders in their industry sector. As such, they are an obvious focus for media and stakeholder attention. There is more information available on their activities – both positive and negative – and it is relatively easy to identify and target their senior managers.

On an individual basis, however, these companies are usually not as omnipotent as some of their critics claim. Their 'power' is tempered by a combination of competitive pressures, regulatory and voluntary frameworks, public opinion and the sheer logistics of managing multi-dimensional operating units on a global basis. In today's world, most of them operate through an increasingly complex network of business relationships, ranging from joint ventures to contractual agreements. In some cases the company has a majority ownership and hence some control over these business relationships. In many cases it has varying degrees of influence rather than control.

Having said this, there is no doubt that these companies play a leadership role, in terms of both their global profile and the size of their operations and investments. This role brings with it a certain 'burden of leadership'. Multinational companies are in the 'spotlight' and the manner in which they respond to changing societal challenges and expectations will have an important 'demonstration effect' for the business community in general.

At the same time, however, in most conflict prone or war-ridden countries, national companies (especially those owned by government or closely linked to government officials) often play a key role in inciting, preventing or resolving conflict. Sometimes these national companies are in joint ventures, or other forms of alliance with multinationals. Often they operate alone, beyond the direct influence of foreign shareholders, western consumers, global media coverage and international operating standards in areas such as human rights and the environment.

In a number of cases, for example South Africa and the Philippines, locally owned companies have played a positive role in conflict prevention and resolution. In others, locally owned companies have been a negative factor due to a combination of cronyism, corruption, active engagement in war economies and in some cases illegal activities such as drug trafficking and illicit arms dealing.

A key challenge for international donors and civil society organisations engaged in the debate on corporate responsibility is to move beyond the 'usual suspects' in the circle of multinational companies and engage these national companies, especially state-owned enterprises and large-scale players, such as the national oil companies in certain emerging markets. Multinational companies can play a useful role in this process in terms of:
• encouraging their joint venture and other business partners to be more proactive in adopting corporate responsibility policies, and
• sharing both lessons and tools with others.

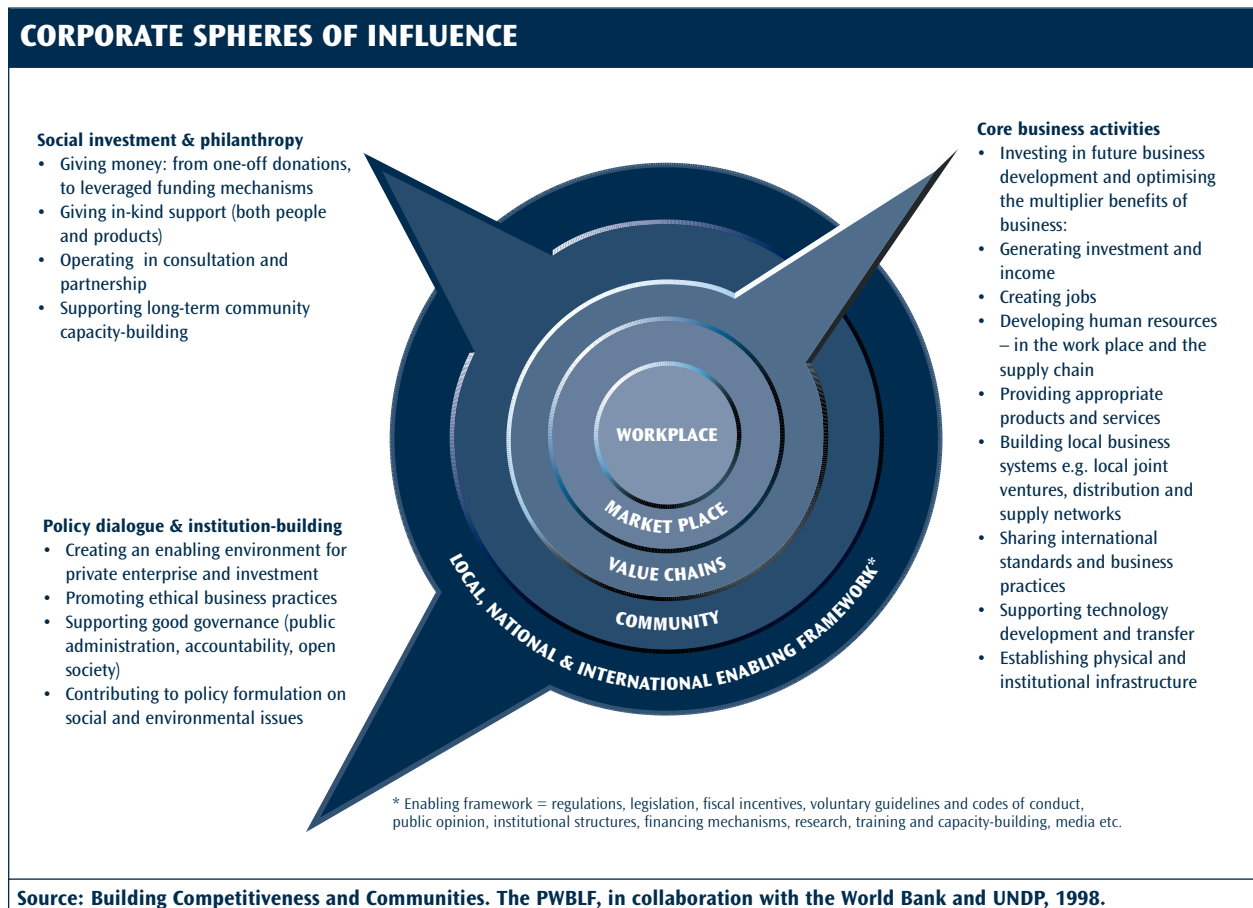### 3.5 Is the company engaged in collective corporate action?

Whilst an individual company is likely to have the greatest control and responsibility in the way it runs its own business operations, its ability to influence structural change in conflict situations is likely to be much greater through engagement in public policy dialogue, advocacy and civic institution building. These latter areas are not easy for companies to engage in on an individual basis. Apart from the time, managerial and financial resources needed to do so, there are also questions of legitimacy and representation for individual companies or business leaders engaging at this structural or macro level. Based on this, another useful question to ask is the extent of a particular company's engagement in traditional business associations or business leadership groups and the potential for increased engagement in such action.

3.6 What are the company's spheres of influence?

A final and critical point to consider when analysing the potential role of a company in conflict prevention and resolution is its different spheres of control and influence. Three key spheres of influence can be identified:
- The company's **core business operations** in the workplace, in the marketplace and along the value chain (i.e. what the company does to source, produce and distribute its products and services);
- The company's **social investment and philanthropy activities** in local communities and wider communities of interest;
- The company's engagement in **public policy dialogue, advocacy and civic institution building** with host governments at the local, regional and national level and with inter-governmental agencies at the international level.

These are illustrated in the diagram below. The next section outlines some of the different types of engagement that business can undertake specifically in conflict prevention and resolution through each of these three spheres of influence.

CORPORATE SPHERES OF INFLUENCE

Social investment & philanthropy
- Giving money: from one-off donations, to leveraged funding mechanisms
- Giving in-kind support (both people and products)
- Operating in consultation and partnership
- Supporting long-term community capacity-building

Core business activities
- Investing in future business development and optimising the multiplier benefits of business:
- Generating investment and income
- Creating jobs
- Developing human resources – in the work place and the supply chain
- Providing appropriate products and services
- Building local business systems e.g. local joint ventures, distribution and supply networks
- Sharing international standards and business practices
- Supporting technology development and transfer
- Establishing physical and institutional infrastructure

Policy dialogue & institution-building
- Creating an enabling environment for private enterprise and investment
- Promoting ethical business practices
- Supporting good governance (public administration, accountability, open society)
- Contributing to policy formulation on social and environmental issues

WORKPLACE

MARKET PLACE

VALUE CHAINS

COMMUNITY

LOCAL, NATIONAL & INTERNATIONAL ENABLING FRAMEWORK*

* Enabling framework = regulations, legislation, fiscal incentives, voluntary guidelines and codes of conduct, public opinion, institutional structures, financing mechanisms, research, training and capacity-building, media etc.

Source: Building Competitiveness and Communities. The PWBLF, in collaboration with the World Bank and UNDP, 1998.

SUMMARY OF KEY QUESTIONS FOR ANALYSING CORPORATE ENGAGEMENT IN CONFLICT

WHAT ARE THE CAUSES OF CONFLICT?	It is rarely one isolated factor operating alone that acts as a root cause or trigger for violent conflict, but normally a combination of factors. Protracted civil conflicts of the type we are seeing in Colombia, Nigeria, Indonesia and elsewhere, are characterised by enduring economic under-development and exclusionary social, economic and political systems. In such countries, it is the imbalances created by the narrow concentration of wealth and power and a failure or inability to fulfil fundamental human needs for security, to recognise distinctive identities and to provide effective and legitimised participation in society which have contributed to violence and conflict. Addressing and transforming such fundamental problems can only be achieved by society as a whole. No company or group of companies is responsible for creating or resolving these problems alone. They can, however, play some part in either exacerbating or helping to solve them, depending on the actions they take.
AT WHAT STAGE IS THE CONFLICT?	It is useful to think in terms of three broad categories of intervention: • Prevention strategies to stop violent conflict from occurring in the first place, to prevent it from becoming worse, or to avoid it reoccurring after peace has been negotiated; • Crisis management strategies which are especially relevant when violent and sustained conflict is actually happening and people are dying or becoming refugees; and • Reconstruction and reconciliation strategies to help rebuild war-torn societies. Different industries can contribute in different ways to all three of these strategies. The responsibilities of business and its ability to make a positive difference are probably greatest in the areas of conflict prevention and post-conflict reconstruction, whilst the business risks are usually highest in the area of crisis management.
WHERE IS THE CONFLICT LOCATED?	A company will face more obvious risks if violent conflict is having a direct impact on the company's operations, either in the workplace or along the local supply or distribution chain. Equally, it will normally have greater ability and responsibility to take action and to control the nature of its actions, if they relate to its own immediate business operations. A company will have less ability, usually less interest and often less legitimacy (especially if acting independent of other companies) to intervene in conflicts that are occurring further afield and not directly affecting its immediate operations.
WHO ARE THE OTHER ACTORS?	Companies operating in conflict sensitive or conflict-ridden locations have to understand and respond to the motivations and capacities of an even wider range of actors and stakeholders than normal. Some of these actors may have a direct interest or stake in either supporting or undermining the company's own operations. Others may not have a direct interest in the company *per se*, but their actions may have the power to indirectly affect it, often in a negative manner. A company must therefore be able to analyse the power and capacity of other actors, their level and nature of involvement with the conflict, and their relationship with the company. Multinational companies need to consider actors and stakeholders operating in both host countries and communities and at the international level. The latter may not be directly affecting the course of a specific conflict, but they can influence the nature of the company's engagement in this conflict through campaigning and other activities.
WHAT ARE THE COMPANY'S CHARACTERISTICS?	The risks, roles and responsibilities of a particular company in any given situation of conflict will depend mainly on the company's industry sector. Different industries have very different risk-responsibility profiles based on factors such as their potential to directly cause conflict, their flexibility of withdrawal or disinvestment from conflict situations and the likely cost of conflict to their operations. Other factors that will have some influence include the company's size, ownership structure and history in a particular country and its range of management functions and spheres of influence.