



# SPECIAL REPORT

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## ABOUT THE REPORT

While the notion of business fostering peace is becoming well established in the academic literature, relatively scant attention is devoted to policies or strategies to promote potentially positive synergies in conflict-affected and fragile regions. In 2010, the U.S. Institute of Peace's Center for Sustainable Economies convened a high-level task force, in partnership with George Washington University's Institute for Corporate Responsibility, to examine the rationale for business practices in challenging environments and propose steps that international and external players could take to promote conflict-sensitive business practices that augur well for shared prosperity and stability. Preliminary findings were presented at the Business for Peace Summit in Oslo, Norway, in October 2011. This report synthesizes task force deliberations and presents a set of recommendations for stakeholders. It also identifies research questions that merit further investigation.

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SPECIAL REPORT 315

SEPTEMBER 2012

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*John Forrer, Timothy Fort, and Raymond Gilpin*

## How Business Can Foster Peace

### Summary

- The business sector can promote prosperity and stability in conflict-prone and conflict-affected regions through good corporate citizenship, but operating in these high-risk, high-reward environments is fraught with great difficulty. Many firms develop risk mitigation strategies designed to minimize exposure and cost without accounting for costs to the country, its population, and the environment.
- Poor risk management strategies combine with endemic corruption and myriad market failures and distortions resulting from weak economic governance to reinforce aspects of the political economy that could trigger and sustain violent conflict. Effectively addressing these failings could reduce business costs, increase efficiency, and improve governance and livelihoods in fragile regions.
- U.S. government policy documents, such as the Quadrennial Defense Review, Quadrennial Diplomacy and Defense Review, and National Security Strategy, allude to a potential role for firms in furthering stability and promoting peace but do not clearly analyze the complexities such endeavors entail or identify workable solutions.
- Strategies to capitalize on the immense potential of the business sector to foster peace must account for the size of firms, whether they are state or privately owned, which industries they are involved in, and their interconnectedness within supply chains.
- Key components of effective strategies include crafting incentives to reward investing firms that espouse good corporate citizenship, strengthening international initiatives that promote transparency and contain corruption, developing initiatives to more fully incorporate the local economy into global value chains, and introducing mechanisms to forge global consensus on appropriate conflict-sensitive business practices.

As violence and instability persist in much of the world and spending trillions of dollars on military activity each year is unsustainable, alternative methods of fostering peace are called for. One valuable yet underutilized asset is the business community. Business and

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peace are often understood as opposing concepts, but growing evidence of their association suggests that firms should not be excluded from the broad array of stakeholders working toward peace.

The notion of business fostering peace has become well established in the academic literature. Firms can promote stability in five broad ways: providing jobs and economic opportunity; respecting rule of law as well as international labor and environmental standards; espousing principles of corporate citizenship; conducting risk assessments unique to the political environment in conflict-affected regions; and in some circumstances engaging in track-two diplomacy. Policies, firm characteristics, and operating environment all affect a firm's decision to engage in peace-promoting behavior. They also influence whether such behaviors are incidental, a consequence of ethical business practice, or purposeful in nature.

Firms vary in size, ownership, and industry, each influencing a company's impact on peace differently. Micro- and small enterprises have the closest links to local communities, providing subsistence and a specialized understanding of local context. Small and medium-sized enterprises (SMEs) contribute substantially to gross domestic product (GDP) and can influence stability through employment and attraction of foreign direct investment. Large multinational corporations (MNCs) can add value through resources, influence, and scale. In addition, firms' motivations and objectives are shaped by the natures of their industries and whether they are publicly traded or state-owned enterprises. Despite their differences, firms are intricately connected in value chains; understanding how they interact with each other and how their behaviors take shape in various contexts is crucial to designing effective approaches to promoting peace.

Firms face a host of challenges in conflict-affected environments, ranging from the violent conflict itself to market, governance, security, and social challenges that extend into postconflict periods. Purposeful peacebuilding may not be feasible for many firms under these circumstances, and attempts when implemented or timed inappropriately can cause more harm than good. However, conflict sensitivity and ethical business behavior remain good practice regardless of context and can contribute to broader peacebuilding efforts. Policymakers are crucial to shaping the landscape in which firms adapt to these challenges. Foreign and host governments can bolster the relation between business and peace through enabling regulation and fiscal investment and by recognizing and highlighting the achievements of firms that successfully advance peace-promoting correlates, such as democracy, human rights, and anticorruption measures.

## The Theory, Empirics, and Practice of Business and Peace

Even as the idea has emerged in the literature regarding the business sector's ability to mitigate conflict and promote prosperity, the study of the relation between business and peace has pointed out the potential role of businesses in both creating peace and fomenting conflict. A predominant argument is that business is part of the problem. There has been considerable research on how business can cause or heighten conflict, and the literature describes businesses as one major source of strife, particularly in resource-rich countries.<sup>1</sup> Under certain circumstances, foreign direct investment, particularly in the timber, mineral, or oil exploitation industries, may contribute to violent conflict. The daily operations of such businesses can cause or exacerbate conflict by way of distribution of resources, displacement of local communities, environmental degradation, and labor and hiring practices. A company that hires based on merit may inadvertently hire more workers from one particular social group than from others. This practice can perpetuate existing structural conflicts regarding disproportionate access to education and jobs.

On the other hand, the notion of business fostering peace is also well grounded in the scholarly literature. In a 2010 in-house survey of academic research on business and peace, the Aspen Institute identified over two hundred scholars engaged in research on the topic. This highly interdisciplinary field of research—drawn from anthropology, political and economic indicators, and formal moral theory, among other areas—has emerged to explore the linkages between business and peace and address the argument that ethical business behavior can contribute to peace. The past decade saw at least fifteen academic conferences in this domain and peace through commerce has been the subject of several books<sup>2</sup> and at least six special academic journal issues.<sup>3</sup> In 2006 the Association to Advance Collegiate Schools of Business, the main accrediting body for business schools worldwide, established a task force that published a report on business education and peace. Firms often understand peace-promoting behaviors such as corporate citizenship as a source of costs, when in actuality they can promote long-term stability and returns to companies as well as the communities in which they operate. This is particularly true in conflict-affected regions, where continuity of business activity relies heavily on peace and stability. Underpinning specific behaviors is an important dimension of business and economic activity that leads to peace more generally.

Meanwhile, the broader argument that trade and economic growth can foster peace ranges back hundreds of years. Kant and Montesquieu long ago hailed the pacific tendencies of commercial republics.<sup>4</sup> That assertion was challenged in the twentieth century, not only by Marxists, who saw capitalism only as exploitative, but also by those who noted that, if trade guaranteed peace, then World War I should not have occurred, Japan should not have attacked the United States in 1941, and Germany should not have invaded the Soviet Union during World War II. In the postwar era, many in the field of development also tended to view business as antithetical to developing countries' own economic expansion and progress. However, other free-market economists have noted that long-term trade thrives with honesty, promise keeping, and production of high-quality goods and services. In their assessment, ethical virtues promote the trust upon which trade flourishes. This suggests that international peace could best be sustained by global trade based on long-term relationships of trust and basic integrity.

The free market system is the dominant economic model in the world today, one that is open to behavior that could foster peace. As critics suggest, however, not every kind of trade or business activity may produce a positive effect. Cronyism, abusive work conditions, and the legacies of colonialism may sow seeds of frustration and violence. Underneath the names and policies of trade are specific, concrete interactions among parties that may or may not be positive and constructive. An important consideration is the nature of business interactions, particularly those between businesspeople and stakeholders, such as employees, shareholders, consumers, and members of the community.

In addition to the descriptive findings in the literature, such as the correlations between ethical business practices and a reduction in violence, the normative literature discusses what actions businesses can take to contribute to sustainable peace, while instrumental studies examine what benefits might accrue to business and society through pursuing peace. The normative literature as it relates to peace is largely aspirational in nature, focusing on peace as a potential goal for business instead of a duty or obligation.

The argument arising out of the literature is not that businesses should promote peace, but that, given the overlap between nonviolent attributes and consensus ethical actions, ethical businesses are already contributing to peace, and knowing the potential consequences of such behavior provides additional motivation to be ethical. Thus, it simply becomes a choice as to whether businesses wish to do so; if they do, they may not have to radically transform their practices to meet their ethical goals.<sup>5</sup> The basic conceptual model

addresses five main areas: economic activity, rule of law and international standards, corporate citizenship, track-two diplomacy, and unique practices and risk assessment.

### ***Economic Activity***

Studies by both the World Bank and the United Nations show correlations between poverty and violence.<sup>6</sup> The literature generally argues that by providing jobs and diversifying economic opportunity, businesses can alleviate a region's poverty. Transferring technology can upgrade the economies of emerging market countries, as can transferring good management approaches for effectively running businesses. Technology can also offer a forum for people of different religious, ethnic, and national backgrounds to work together toward a common goal. Cisco Systems committed to this idea by investing \$10 million in Palestinian programmers and including both Palestinians and Israelis on the same programming teams.<sup>7</sup> Cisco has taken people and economies that are too often kept apart and reconnected them in person and in cyberspace.

### ***Rule of Law and International Standards***

Rather than exploiting asymmetrical power relationships, companies that respect the rule of law and abide by international labor and environmental standards can contribute to peace. Mars Incorporated has supported the Sustainable Tree Corps and helped in developing the Cocoa Livelihoods Program to evaluate the cocoa sector of Ghana and other regions.<sup>8</sup> Mars works to raise awareness of the importance of reducing child labor and protecting workers at every level of the cocoa value chain, from the fields to the factories. The company also has committed to certifying its entire cocoa supply by 2020—all 250,000 tons a year—as sustainable.<sup>9</sup> As corruption can stoke instability and violent conflict, businesses with strong ethical principles and zero-tolerance policies toward corrupt practices move the needle toward peace. Other rule-of-law contributions to peace include respect for property and contract rights. In addition, dispute-resolution mechanisms provide an avenue for resolving differences without resorting to violence. A recent example is Mongolia's tripartite agreement signed by business representatives, civil society, and government in 2010. The agreement established a national mechanism for dispute resolution, conflict mitigation, and education on mining issues. This agreement is the first of its kind globally and has the potential to set a leading example of best practices in preventing and resolving natural resource-related conflicts through multistakeholder collaboration.<sup>10</sup>

### ***Corporate Citizenship***

Corporate citizenship encompasses a range of initiatives extending beyond traditional philanthropic activities; the term is broadly defined as a commitment to ethical behavior in strategy, operations, and culture.<sup>11</sup> Contrary to common assumptions, rather than distracting from profit maximization, this commitment can manifest as a strategic response to market or governance conditions that affect the bottom line. Coca-Cola provides pushcarts to disadvantaged female entrepreneurs in rural Vietnam, allowing them to create a revenue stream for themselves while making it easier for Coca-Cola to expand into underdeveloped areas that are harder to reach using conventional transportation methods.<sup>12</sup> Corporate citizenship can enhance the social, environmental, and economic health of communities, in turn benefiting companies, which are not immune to what happens in their operating environment.

In addition, to the extent that companies espouse the principles of corporate citizenship, they can promote diplomatic relations between the United States and the countries in which they operate. The U.S. Department of State acknowledges this through its Award for Corporate Excellence.<sup>13</sup> Most often, citizenship is characterized by corporate social responsibility (CSR) initiatives and the degree to which a company respectfully engages the local

***To the extent that companies espouse the principles of corporate citizenship, they can promote diplomatic relations between the United States and the countries in which they operate.***

community. As such, the relationships tend to be with parties external to the company. However, other internal relationships pertinent to creating a corporate community connect to peace. These are identified in a number of leading management theories of effective business performance. Basic models of corporate responsibility engender the trust that creates more efficient and innovative business strategies. Quality management demands that individuals within an organization speak up if they see a defect in manufacturing. This provides workers with a concrete experience of voice and self-governance, both critical features of democracy. Basic respect for individual human rights within the organization, including gender equity, can also foster peace.<sup>14</sup>

### ***Track-Two Diplomacy***

In some circumstances, businesses can facilitate unofficial interactions between government parties that may end diplomatic impasses. During tensions between India and Pakistan in 1998, after Pakistan's testing of a nuclear device, *New York Times* columnist Thomas Friedman reported that executives from General Electric persuaded leaders of both governments to stand down.<sup>15</sup> The Consultative Business Movement in South Africa enabled business leaders to promote peace by partnering with the government to address social and economic challenges and reduce unemployment through job creation in the tourism industry. It was perceived as an honest broker between parties during the country's transition from apartheid.<sup>16</sup>

### ***Unique Practices and Risk Assessments***

Companies working in conflict-sensitive zones may engage in practices and risk assessments unique to the political environment. These practices frequently involve careful attention to the interests and concerns of customers, employees, suppliers, and other stakeholders immediately involved in the conflict-sensitive environment who are crucial to the companies' successful operations.

## **Public Policy Experiences, Gaps, and Opportunities**

The Defense Department's 2010 Quadrennial Defense Review (QDR), the State Department's inaugural Quadrennial Diplomacy and Development Review (QDDR), and the 2010 U.S. National Security Strategy (NSS) acknowledge the importance of according the business sector a major role in solving strategic challenges and fostering peace; leveraging the core competencies of the private sector in problem solving; tapping the business sector's ingenuity and innovation in both processes and outcomes; using public-private partnerships as vehicles to institutionalize anticorruption measures; and providing tangible peace dividends, such as jobs, income, wealth, and services.<sup>17</sup>

While the QDR, QDDR, and NSS all allude to a potential role for business in furthering stability and promoting peace, they do not clearly analyze the complexities such endeavors entail or examine how workable solutions can be identified. The result is a profound void for those attempting to determine how to engage the business community in investment and commercial activities to help create more durable peace. Clear strategies and national and foreign policies must be developed to align commercial activity in conflict-affected states with other peacebuilding efforts to inhibit further violent conflict and promote lasting peace. There also is a clear opportunity for policymakers to bolster the relation between business and peace rhetorically by recognizing and championing firms that contribute significantly to peace and stability. In addition to the State Department's award for corporate excellence, looking forward, it may be advantageous for the government to tie procurement to company behavior that promotes values such as democracy, anticorruption, and human rights.



## Firm Characteristics and Contributions to Peace

A variety of businesses are already engaged in the business-peace nexus, and variation in size, ownership, and industry lead firms to respond differently to policies, threats, and incentives. The nature of the response can affect peace positively or negatively; therefore recognizing the diversity of firms and the different ways they interact with the communities in which they operate is crucial to designing the most effective approaches to promoting peace (table 1).

### Size

Microenterprises and SMEs create jobs and generate income in low-income countries; they account for more than 60 percent of GDP and over 70 percent of total employment.<sup>18</sup> While they have a significant presence in markets, micro- and small enterprises often have trouble staying afloat because they struggle to obtain financing. Only about 5 percent of fixed investment financing for microenterprises is secured from banks; the majority must come from internal funds and family or friends. These enterprises often make just enough to get by, selling crafts domestically or producing subsistence crops.

Lack of competition offers little incentive for banks to extend their reach to micro- and small enterprises, and financial sector policies in many countries do not cultivate an environment for smaller enterprises to thrive. Banks encounter (real or perceived) high risk and transaction costs when financing micro- and small enterprises. Moreover, many have neither the appropriate tools to measure risk nor the adequate legal systems to reinforce contracts. In some cases banks face penalties for lending to businesses with nontraditional collateral.<sup>19</sup>

Optimistically, the proliferation of microfinance organizations such as the Grameen Bank and Kiva has alleviated some of the financial barriers to growth for micro- and small enterprises. However, continual development of more stable financing options is needed to help these enterprises grow and stay competitive, which in turn can bolster economic growth and stability.

Micro- and small enterprises may have the greatest effect on local economies because of their access to local social networks. Close ties to communities may also better position them to establish mutual trust locally. It follows that their desire to promote peace may be greater than other firms. In light of these factors, international investors may be more effective in furthering peace by integrating smaller domestic firms into a substantial portion of their value chain.

Microenterprises, which are typically owned, managed, and operated by as few as one or two individuals, do not achieve the same scale that larger firms do; however, collective initiatives such as the Sadakhlo Market in the South Caucasus demonstrate they can still promote peace. The market's location in Georgian territory establishes it as a neutral location for Armenians and Azeris to trade goods, despite official economic restrictions between the two countries. This unofficial outdoor market is a safe zone for exchange, allowing a flow of economic activity and interaction between the two groups even during the countries' most volatile periods.<sup>20</sup>

Medium-sized enterprises have a greater number of employees and produce higher turnover. They also have greater access to finance, with approximately 22 percent of their fixed investment financing secured from banks. These firms operate in domestic and export markets, and as with some small firms, they can attract much needed investment to their communities. However, conducting business with outside firms should be approached with great caution and sensitivity to local perceptions. Communities may be wary of capitalism and also fear that wealth earned locally will be exported.

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**Table 1. Spectrum of Businesses Promoting Peace**

Firm Size	Number of Employees <sup>1</sup>	Turnover (US \$) <sup>2</sup>	Sources of Fixed Investment Financing <sup>3</sup>	Personnel <sup>4</sup>	Activity	Consumption
Micro	1–10	<\$100,000	70 percent internal funds 11 percent family/friends 12 percent other 5 percent banks 1 percent state sources	N.A.	Crafts Retail Subsistence agriculture	Domestic
Small	11–50	\$100,000 to \$3 million	N.A.	Proprietor-entrepreneurship Functions linked to personalities Generalists	Construction Small-scale manufacturing Hospitality Wholesale/retail Information technology Smallholder farms Agricultural processing	Domestic/export
Medium	51–300	\$3 million to \$15 million	52 percent internal funds 22 percent banks 12 percent other 5 percent state sources 5 percent equity 4 percent family/friends	Proprietor-entrepreneurship Functions linked to personalities Generalists	Construction Small-scale manufacturing Hospitality Wholesale/retail Information technology Smallholder farms Agricultural processing	Domestic/export
Large	>300	>\$15 million	N.A.	Manager-entrepreneurship Division of labor by subject matter Specialists	Extractive Manufacturing Large-scale agribusiness	Domestic/export

*Sources:*

1. Mohini Malhotra, Yanni Chen, Alberto Criscuolo, Fan Qimiao, Iva I. Hamel, and Yevgeniya Savchenko, “Expanding Access to Finance: Good Practices and Policies for Micro, Small, and Medium Enterprises,” World Bank, Washington, DC, 2006, available at [http://info.worldbank.org/etools/docs/library/236032/SMEAccessToFinance\\_Final\\_083106.pdf](http://info.worldbank.org/etools/docs/library/236032/SMEAccessToFinance_Final_083106.pdf) (accessed March 22, 2012).
2. Malhortra, Chen, Criscuolo, Qimiao, Hamel, and Savchenko, “Expanding Access.”
3. World Bank, *World Development Report 2005: A Better Investment Climate for Everyone* (Washington, DC: World Bank, 2004), available at [http://siteresources.worldbank.org/INTWDR2005/Resources/complete\\_report.pdf](http://siteresources.worldbank.org/INTWDR2005/Resources/complete_report.pdf) (accessed March 22, 2012).
4. U.S. Agency for International Development (USAID), “Booklet of Standardized Small and Medium Enterprises Definition,” Washington, DC, 2007, available at [http://pdf.usaid.gov/pdf\\_docs/PNADM845.pdf](http://pdf.usaid.gov/pdf_docs/PNADM845.pdf) (accessed March 22, 2012).

Whether or not medium-sized firms supply or partner with international investors, a number of actions they may engage in can cause or exacerbate conflict. Participation in corrupt activities disrupts trust and can cause communities to either lash out or disengage. Because medium-sized enterprises tend to employ local residents, hiring practices can provoke tension if they are not inclusive enough. However, they are also windows of opportunity to build stability by connecting different ethnic, social, or religious groups through work.

Large enterprises can have well over three hundred employees and turnover valued at over \$15 million. Their personnel characteristics differ from microenterprises and SMEs; as the division of labor is often organized by subject matter, there are typically more specialists than generalists. Large enterprises are frequently involved in export markets and perform large scale, capital intensive activities, such as mining or manufacturing. A specific kind of large enterprise, the MNC, is crucial to the business-peace nexus as a source of direct investment. Because of their size and resources MNCs can have significant leverage with local governments and a substantial effect on local communities.

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## ***A Closer Look at Multinational Corporations***

Some MNCs have been used as tools for individuals in power, enriching cronies and further marginalizing ethnic minorities. They also have been used as a force for transforming society. MNCs can institute practices that enhance peace and require suppliers to adopt similar practices. This is akin to what some companies, such as Motorola, have done, in insisting that local suppliers in countries outside the United States adhere to quality standards or compete for quality recognition.<sup>21</sup>

MNCs can better understand the degree to which they are tied to conflict by assessing how likely their operations are to cause conflict, how high the costs of the conflict are to the company, and how flexible they are to discontinue business activities.<sup>22</sup> Extractive companies are arguably among the most entrenched private-sector actors in conflict. They extract strategic resources from locations that often have weak or repressive governments, they incur high costs from substantial investments in infrastructure and machinery, and their flexibility is limited because the resources being extracted are location specific.

Extractives and other large-scale industries face a number of sensitive issues in conflict-affected regions. Environmental degradation is a seemingly inevitable consequence of their activity, and poorer communities, which already experience poor air quality or little access to potable water, tend to suffer most from the release of toxins or pollution. Displacement is another concern when, due to corporate activities, communities are compelled to resettle to new locations that may not have sufficient access to basic resources, such as water, education, and health. Tension between migrant populations and the communities into which they are integrating is possible as a result of differing cultural norms or traditions.

When communities remain close to a company's operations, conflicts can emerge between neighboring communities and the company regarding (real or perceived) unequal distribution of resources, jobs, and compensation. Firms that invest too heavily in public goods and services may reinforce existing disillusionment about the government's capacity to provide for local communities. MNCs also should be conscious of the cultural and economic tensions that introducing an expatriate workforce can create, and of ways in which their operations may directly or indirectly fund conflict. Managing these challenges involves engaging with communities before breaking ground, assessing the possible environmental, social, and political effects of operations, and committing to transparency.

### ***Ownership***

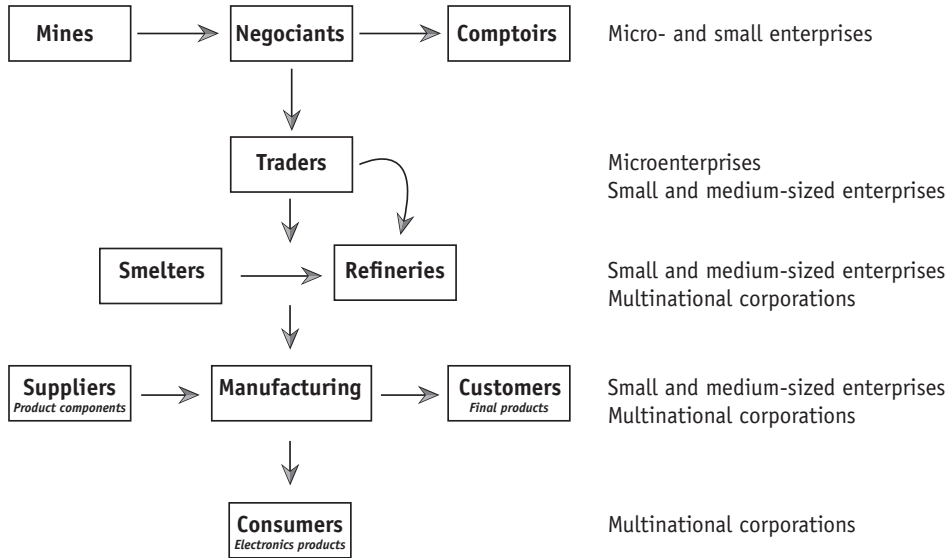
The kind of effect large firms such as MNCs have is influenced by whether they are publicly traded or state-owned. State-owned enterprises (SOEs) are, as the name implies, accountable to the state. This means that the government's foreign policy objectives can potentially override economic or social conditions when the enterprise is considering a certain course of action. The breadth of stakeholders that public enterprises hold themselves accountable to varies by firm, but regardless of where they fall on the shareholder-multistakeholder continuum, publicly traded enterprises are less inclined to be used as an instrument to accomplish foreign policy objects than are SOEs. However, they are not fully immune to the influence of host governments, particularly if the resources or land that they are accessing is licensed by the state, or if they are engaged in a joint venture with the government.

### ***Addressing Peace Challenges in Complex Value Chains***

While MNCs receive a lot of attention for their effects on conflict-afflicted regions, they are among a host of actors participating in product value chains. In mineral supply chains MNCs are typically involved in end-stage processing and production. Before raw minerals arrive at a smelter or refinery, domestic micro- and small artisanal miners extract them. The



**Figure 1. Mineral Supply Chain**



*Notes:* Negotiants are small-scale traders who purchase mineral ores from diggers and sell to trading houses in the local market. Comptoires are domestic traders who bag (and sometimes tag) ores generally purchased from the negotiants. They occasionally export to neighboring countries. Traders refers to trading houses that export washed, sorted, and bagged mineral ores internationally.

*Source:* Adapted from the Electronic Industry Citizenship Coalition (EICC) and Global E-Sustainability Initiative (GeSI) Work Group, available at <http://eicc-gesi.resolv.wikispaces.net/Tin+Supply+Chain> (accessed May 3, 2012).

minerals are then traded and sold to medium-sized and large enterprises for processing, manufacturing, and export. The structure of these transactions is complex and varies with context (figure 1). Sometimes mines circumvent traders and sell directly to smelters, or traders conduct business directly with refineries. Thus, while MNCs may be the most visible entity in a production chain, they cannot be the sole point for enacting conflict-sensitive business practices. If an extractive company successfully manages its environmental and social effects on the community in which it operates yet makes purchases from suppliers who finance conflict or use exploitative child labor, its contribution to peace is inconsistent. Including all firms along the value chain is crucial for the most comprehensive and lasting results.

### **Mineral Supply Chain**

Contributions to peace look different for each firm, depending on its capacity, objectives, and the context in which it is operating; some companies may make peacebuilding an explicit aim of their work, while others may pursue ethical business practices and create more harmonious social relations as a consequence. In any case, these contributions require, first, that firms understand the two-way interactions—direct and indirect—between their activities and the context in which they operate, and second, that they minimize negative effects and maximize the positive effects of their interventions. This is the core of conflict-sensitive business practice and should involve all aspects of work and apply to all contexts, including where there may not have been recent violence.<sup>23</sup> Such behavior is most effective when implemented at all points in the value chain. Conflict sensitivity does not necessitate peacebuilding per se, but conceptually, the goals of profitable business could align with peace strategies if such approaches are adopted.

## Operating in Postconflict Environments

There are apparent challenges to businesses operating in regions experiencing ongoing violent conflict. Purposeful peacebuilding may not be feasible for most firms under these circumstances, and attempts can do more harm than good when implemented or timed inappropriately. However, conflict sensitivity and ethical behavior are suitable during all phases of conflict and can contribute significantly to broader peace efforts, ranging from conflict prevention to postconflict reconstruction—which presents its own set of unique challenges.

Postconflict societies have a host of institutional, regulatory, and oversight concerns that directly challenge businesses creating, maintaining, or resurrecting legal frameworks in which to operate. Businesses have limited abilities to offer substitutes, yet they need them in order to function. Institutional capacity can indicate whether most trade occurs in the formal or informal market, the latter being outside of the normal regulatory framework. Severe market fragmentation often occurs under weak institutions where the informal sector is prominent, and in some cases predominant. A large informal market creates competitive challenges for companies working in the formal market.

Corruption is especially prevalent where institutional capacity is weak and it is frequently associated with violence, disrupting the level playing field for a fair, competitive business environment. Weak institutions also coincide with challenges regarding the management of security forces; these forces' aims may be to ensure conditions for widespread participation in an economic and political system or, on the contrary, to isolate and marginalize enemies. Analyzing the interaction of security forces and business brings to light additional considerations, such as whether security forces are private or public—and therefore more amenable to oversight and regulation. Public security forces still present challenges, especially if military and business goals do not match. The magnitude of this concern depends on the extent to which security measures are integrated into business plans and whether civil military personnel have been trained to recognize issues that are important to businesses investing in conflict zones.

Differences in culture can also affect the contribution of business to peace. Communities may regard firms positively, as a stabilizer bringing employment and development, or as intrusively imposing a foreign culture. Some religious scholars argue that religion-based terrorism can arise when a local population believes that a foreign presence—including business—is so changing the local environment that traditional ways of life are under siege. This belief can lead to extreme measures adopted to protect historical cultural and religious traditions.<sup>24</sup> Such measures highlight the value of business models depicting development as uplifting and stabilizing as opposed to threatening, as SURevolution does when it connects indigenous artisans in countries such as Colombia, India, South Africa, Peru, Kyrgystan, Bolivia, and Indonesia with luxury product markets around the world.<sup>25</sup>

SURevolution works with artisans to draw attention to the history of their products, protect the valuable natural resources that are needed to produce them, enhance quality and design, and ensure adequate manufacturing capacity. Many of the indigenous groups that work with SUR reside in areas of Colombia where coca production and narcotrafficking were once commonplace. SUR works with other vulnerable groups as well, including disadvantaged Afro-Colombians, those who have been displaced by the long-running violence, former illegal combatants, and war victims. Employment generated through SUR-supported assistance has given Colombian artisans sustainable living wages, more secure communities, and the preservation of their unique culture.<sup>26</sup>

In light of the contextual challenges that businesses face, it follows that the relation between business and peace should be further informed by two key issues. The first involves the way in which businesses adapt to overcome challenges in conflict-affected environ-

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ments. The second is the effect that government has on business success and competitiveness in these environments.

### ***Doing Businesses in Conflict-Affected States***

Many businesses understand the conflict-related functions of their organizations in terms of corporate social responsibility, political risk management, and public and government relations, but they have not integrated them in a way that reaps the benefits of peacebuilding strategies. How businesses respond to information asymmetries, market fragmentation, institutionalized corruption, and oppressive policy frameworks varies, and the mitigation strategies they choose can have negative or positive consequences for peace.

In some cases businesses resort to negative strategies as a coping mechanism against market and governance failure. Others may use them as a means to maximize profit. Negative strategies include bribery, flouting international laws and standards, cutting corners, and neglecting contractual arrangements. These can create new conflicts or exacerbate existing tensions. Positive strategies include support for anticorruption activities, investment in human and physical capital, collaborations on social strategies, and leadership in multilateral regulatory reform efforts. Regulation can influence greatly the strategies that businesses adopt and can have powerful implications for encouraging or discouraging conflict-sensitive approaches. Nexen, a Canadian-based energy company, provides an example of such positive strategies. To increase the percentage of Yemenis in the workforce, Nexen developed a merit-based, equal-opportunity, postsecondary scholarship that seeks to enhance the professional development of Yemenis in the oil and gas industry through recruiting and engaging Yemenis in a formal training and development program. The resulting effect of this investment in human capital is not only the development of the Yemeni workforce, but also dissemination and adoption of the transparent and equal opportunity model, as some Yemeni government ministries are now using this model to administer their own scholarship programs.<sup>27</sup>

### ***The Effects of Domestic and International Regulations***

To more comprehensively examine the relation between business and peace, we must also consider what business needs to be successful. This can be better understood when examined within the regulatory context in which firms operate. Regulations can provide a clear and enabling framework in which businesses can operate more effectively, such as by helping to eliminate the costs of bribery (e.g., the Foreign Corrupt Practices Act). However, regulations can also present obstacles—appropriate or not—to economic development by businesses. The Alien Tort Act, for example, can compel U.S. companies to go to trial in the United States for the activities of foreign subsidiaries, as in the alleged complicity of Chevron with human rights violations by military personnel guarding pipelines in Burma.<sup>28</sup> Lawsuits have also been brought by human rights groups against Internet service providers such as Yahoo, Microsoft, and Google in China for turning over names of users who violated Chinese speech laws.<sup>29</sup>

Coordination challenges pertaining to competition with businesses from other countries are also of concern. The Transnational Automotive Group (TAuG) is a successful example of transnational coordination from countries with differing foreign policies. TAuG brings together U.S. capital, business practices, and management with high-quality Chinese buses and a Cameroonian workforce to provide safe, affordable transportation in Cameroon. TAuG's recruiting practices, investment in employee training, and concern for employee welfare are its greatest assets. In return, its employees deliver a consistently strong performance, allowing TAuG to offer clean, comfortable, and reliable service—the company's simple but highly effective competitive advantage.<sup>30</sup> U.S. businesses and U.S. laws are internationally

influential, but the best chance for businesses to adopt practices that both contribute to peace and avoid placing them in a noncompetitive posture is through international agreements, which should develop into minimum standards of business behavior, especially at the G20-type country level.

Oversight mechanisms can facilitate businesses in addressing market failures more sensitively in conflict-affected countries. To the extent that they encourage transparency and accountability, they improve predictability and enhance efficiency. Voluntary mechanisms are a useful first step, but without effective sanctions their utility may be limited. Regulatory arrangements are only effective if all important stakeholders comply. For this reason packaged investments and muscular commercial diplomacy could pose serious challenges. Some regulations could increase business costs and make compliant firms less competitive; innovative compensatory mechanisms should be considered to address this challenge. Assessing costs in the aggregate rather than focusing on the effect of specific programs is key.

## Conclusion

Much attention has been devoted to understanding business as an integral part of the problem in conflict-affected states, but there is evidence that it could be an important part of the solution as well. As the engine behind economic activity, business can foster peace in a multitude of ways and facilitate transitions from aid dependency to self-sustained progress. Conceptually, the goals of profitable business can be aligned with peace strategies if conflict-sensitive and ethical approaches are adopted. It is in the best interest of firms to work for peace where possible in the communities in which they operate; this is true for strategic and risk-mitigation purposes, as firms are not immune to tensions in conflict-affected areas. Decimation of infrastructure or human capital has significant consequences for continuity of operations and security.

Given the diversity of businesses and their varied responses to policies, threats, and incentives, an aggregated analysis of how businesses influence peace and conflict is not sufficient. Distinctions should be made between large multinationals and domestic SMEs, public and private ownership, types of industry, and formal and informal systems to identify the most effective peace-promoting behaviors.

Information asymmetries and a predatory political economy in conflict zones present complex risks for local and foreign investors, and there are positive and negative consequences when firms adjust their strategies. When circumventing challenges involves corruption—bribes to lubricate processes or avoid contractual and regulatory obligations—these could trigger or sustain violence. Entrenched and pervasive corruption is a coping strategy for some firms; for others it is a means of profit maximization. Regulation is one way to address the market and governance failures that compel some businesses to adopt negative approaches. However, it is only effective and peace promoting if all players, domestic and foreign, comply. Peacebuilding in conflict-affected regions requires more than boots on the ground, peace accords, security arrangements, and focused diplomacy. Practitioners, scholars, and policymakers agree that success requires the effective leverage of all stakeholders—including the business sector.

## Recommendations

### *U.S. Government*

For business to more effectively understand its role in emerging markets, the U.S. government must better integrate the business sector into foreign policy and national strategy plans

***Business can foster peace in a multitude of ways and facilitate transitions from aid dependency to self-sustained progress.***

and documentation. Clear and enabling regulatory frameworks are needed. These could be designed to encourage, incentivize, and support business and peace. A number of initiatives, such as the World Bank's Multilateral Investment Guarantee Agency, have been introduced to mitigate risk or compensate for market failures in conflict-affected states, including preferential trade agreements, sovereign risk insurance mechanisms, trade financing assistance, and public-private partnerships for development projects. Because some regulations, such as new reporting requirements, increase business costs, mechanisms to mitigate these costs should be explored and implemented. Unequal implementation and opportunities for avoidance are strong disincentives, which should be accounted for when forming regulation.

In addition, by recognizing companies that promote democracy, human rights, and anticorruption, the government can encourage peace-promoting behavior. The State Department award for corporate excellence is a positive step in this direction. Furthermore, rewarding positive action, for instance by tying procurement to ethical practices, may also create incentive to engage in behavior that is consistent with peace and stability.

The salutary effects of development on stabilizing economies open the question of whether incentives, such as tax rebates or liberalized trade, to invest in conflict-sensitive areas are appropriate and beneficial. Local businesses could be among many beneficiaries, by way of increased commercial activity in their communities. However, these incentives require careful consideration, as they may also bring about unintended consequences, such as crowding-out effects and barriers to entry for domestic firms.

The State Department can assess the roles businesses play in different postconflict situations and incorporate specific business development goals and targets into its toolbox for promoting peace. It should also consider incorporating business practice standards that promote peace into development project funding requirements. To ensure that initiatives are conflict-sensitive, the U.S. Department of Defense can assess the effect of support for local business on stabilization efforts in countries such as Iraq and Afghanistan. Developing guidelines and procedures for supporting local business and peace practices in a field manual is key. As foreign policy, diplomacy, and security are intricately linked, plans to integrate the business community into these avenues for promoting peace should not be developed in isolation. Convening an interagency task force will help to assess how to involve the private sector more holistically.

### ***Local Governments***

Local governments can foster peaceful relationships in a number of ways. They can improve land tenure management, enhance security measures, or enable residents to have more influence in policy development. To promote peace in the context of business development, they can also monitor, evaluate, and facilitate resettlement processes. Large-scale business development often requires the resettlement of local residents. Involuntary displacement can spur conflict; even voluntary resettlement can lead to significant tensions. Migrant populations often integrate into new communities with different traditions and cultures, which might already be suffering from resource limitations. Local governments should identify triggers of conflict, provide order, offer mechanisms for dispute resolution, and engage in dialogue and monitoring to facilitate smooth transitions.<sup>31</sup>

One of the negative externalities of corporate investment in infrastructure development is the risk of undermining the government's role in providing public goods. Disillusionment regarding the government's capacity to provide basic goods and services may be reinforced if corporations provide these services. However, private sector infrastructure projects may provide a window of opportunity for local governments to gain credibility among local residents. Governments can partner with companies by contributing to the development of such projects or committing to take responsibility for maintaining the infrastructure that will be



present long after the firms leave. Companies construct schools, hospitals, and roads, but longer-term success depends on whether funds are available to keep them running. Vacant and dilapidated hospitals and schools that once spurred hope in communities may breed contempt. On average, about 30 percent of infrastructure assets in Africa need repair. This percentage is higher in fragile states such as the Democratic Republic of Congo, where 50 percent of infrastructure assets require rehabilitation.<sup>32</sup> Private sector–government infrastructure partnerships reduce costs for businesses and governments and can potentially lift communities’ confidence in local government.

Given their close ties to local communities, micro- and small enterprises are vital to promoting peace in conflict-affected regions. Local governments can accelerate their effect by implementing measures that make it easier for these firms to access the finances they need to grow their businesses.

### ***Firms***

Domestic microenterprises and SMEs may have the greatest potential to foster peace given their proximity and connection to local networks. By integrating domestic firms into a substantial portion of their supply chain, MNCs can help magnify peace-promoting activities. However, partnering with domestic firms does not inherently lead to peace. Conflict affects all points of supply chains; this means that sensitivity to conflict must be present from one end of a value chain to the other. Because of their local ties, SME suppliers may be engaging in ethical business practices of their own accord. Where this is not the case, as an important source of direct investment, MNCs can pressure their suppliers to adopt conflict-sensitive behaviors, such as adhering to environmental standards or committing to fair and inclusive hiring practices.

Firms can also foster peace by ensuring that the taxes they pay are invested directly into the communities in which they operate. Some companies focus on encouraging governments to commit to the social development of communities. Where this is less feasible, other companies, such as Placer Dome in Papua New Guinea, take a more direct approach; Placer Dome negotiated for a portion of the taxes it owed to the government to be routed directly to infrastructure projects in the community in which it operated. Four core principles of implementation contributed to the success of this initiative: emphasizing the renovation of existing structures over new construction; utilizing preexisting, community approved development plans, where they existed; taking a regional approach to development to prevent conflict between communities over entitlement to resources; and rewarding peaceful behavior by initiating work in the most stable villages, with the idea that local communities would hold saboteurs accountable for delayed development.<sup>33</sup>

The business community can make environmental, social, and economic impact assessments standard practice when they operate in conflict-affected regions. In the same way that companies analyze financial, political, and security risks before committing to a project, so too should they measure their effects on the communities in which they operate. Both types of assessment are crucial, as any negative effects a company has on the health and stability of a community eventually cycles back to affect its operations. Assessment should not be a one-off exercise, but a continuous process to account for changes in context so that initiatives remain relevant. This may require the assistance of local or international non-governmental organizations (NGOs).

### ***Non-Governmental Organizations***

NGOs can be a valuable asset to businesses desiring to enhance conflict sensitivity. However, NGOs and firms would be most successful by focusing on a shared interest in achieving peaceful outcomes as opposed to differences. By providing clear and realistic expectations

for companies, NGOs may experience a more positive response. The European Coalition on Oil in Sudan (ECOS) presented concrete benchmarks on how companies should approach oil exploration in Sudan, which interested oil companies received well.<sup>34</sup> NGOs can also foster peace by engaging companies before they invest—that is, when firms have the most leverage to affect conflict on a larger scale. Corporations should be acknowledged when they succeed, to heighten the incentive to continue their efforts and increase their likelihood of consulting with NGOs in the future.<sup>35</sup>

### ***Academic Community***

The association between business and peace is well known but very little understood, particularly regarding the direction or strength of causality. The academic community can engage in more detailed analyses to inform both business leaders and policymakers on the details of causality, impact, relative costs, and outcomes. Existing assumptions should be challenged. Differentiated analyses of businesses—such as multinational versus domestic, or publicly traded versus state-owned—and the respective strategies most conducive to peace can be undertaken. In addition, distinctions can be drawn among the behaviors and objectives of businesses: Some firms explicitly intend to participate in peacemaking, while others seek to undertake ethical practices that are associated with peacefulness. Case studies documenting the experiences of business can be developed in significant depth to help identify companies currently practicing behaviors linked to peace, beneficially bringing to light those companies that undertake this work the best. This research may lead to the development of peace-specific codes of conduct for business.



## Notes

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