

The George Washington University  
School of Business



Institute for  
Corporate Responsibility



## Update on Business and Peace Initiative

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co-conveners

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# UPDATE: USIP BUSINESS AND PEACE INITIATIVE<sup>1</sup>

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## Background

Peacebuilding in conflict-affected regions requires much more than boots on the ground, peace accords, security arrangements and focused diplomacy. Practitioners, scholars and policymakers agree that success in this regard requires the effective leverage of all stakeholders – including the business sector. This would facilitate a lasting end to protracted and costly conflict, and deliver tangible peace dividends.

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) all echo this theme. They acknowledge the importance of:

- (a) according the business sector a major role in solving strategic challenges and fostering peace (*NSS, pg 13; QDR pg 13*)
- (b) leveraging the core competencies of the private sector in problem solving (*NSS, pg 33; QDDR, pg 68; QDR, pg 13*)
- (c) tapping the business sector's ingenuity and innovation in both processes and outcomes (*NSS, pg 16; QDDR, pg 22*)
- (d) public-private partnerships as vehicles to institutionalize anti-corruption measures (*NSS, pg 38; QDDR, pg 98*)
- (e) providing tangible peace dividends like jobs, income, wealth and services (*NSS, pg 37; QDDR, pg 14*)

While these documents all allude to a potential role for business entities in furthering stability and promoting peace, they provide neither a clear analysis of the issues involved or specific guidance on workable solutions. This business and peace initiative aims to help fill these gaps and demonstrate how peacebuilding processes could be more effective and outcomes more durable when the business sector is strategically engaged. An overarching goal is the development of clear strategies to align commercial activity in conflict-affected states with mechanisms to avoid violent conflict and promote lasting peace.

Preliminary research for this joint initiative started in the summer of 2010 and a high-level task force was constituted during the Fall of 2010 (*see Annex A for a list of task force members*). The task force met twice in February 2011 and a two-week eSeminar (*attended by over 1,500 people from 93 countries*) was held in March. This update summarizes findings and recommendations and identifies next steps.

## Theory, Empirics and Experience

The notion of business fostering peace is now well grounded in the scholarly literature. In a recent report by the Aspen Institute's Business and Society Program, over one hundred scholars were

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<sup>1</sup> Report prepared by Task Force co-leaders Raymond Gilpin (US Institute of Peace), Timothy Fort (Institute for Corporate Responsibility), and John Forrer (Institute for Corporate Responsibility).

identified as having written about the topic in the last ten years. The basic conceptual model has three main prongs.

First, economic activity can foster peace by providing jobs, diversifying economic opportunity beyond extractives, transferring technology that can upgrade the economy of emerging market countries, transferring good management approaches to effectively running businesses, and providing a forum for people of different religious, ethnic, and nationalities to work together – in business – for a common goal.

Second, companies that respect the “rule of law” and abide by international labor and environmental standards principles make positive contributions to peace rather than exploit asymmetrical power relationships. In particular, since corruption has the potential to stoke instability and violent conflict, businesses with strong ethical principles and zero-tolerance policies towards corrupt practices move the needle toward peace and away from violence. In short, business models and practices matter.

Third, to the extent companies espouse the principles of good corporate citizenship they can promote diplomatic relations between that country and the United States. This is a concept already well-established in the U.S. Department of State through its Award for Corporate Excellence. This relationship is borne out in a number of leading management theories of *effective business performance*.

These conceptual models are backed by empirical evidence drawn from disparate fields of economics, finance, political theory, sociology, and ethics. Indeed, exactly this backing of concept with empirics defines much of the academic literature summarized by the Aspen Institute study. Moreover, these findings are corroborated through evidence gleaned from a number of case studies.

This business and peace initiative concentrates on this combination of theory, empirics, and experience in order to provide a strong, plausible case for the positive contribution business can make to peace. Thus, central goals of the Task Force are to identify what we know, analyze what more we need to know and clearly explain trade-offs and outcomes.

### **Summary Feedback from Task Force meetings and the eSeminar**

The preliminary Task Force deliberations and moderated discussions during the eSeminar were organized around the following three broad (but interconnected) themes:

- (a) How does business affect peace?
- (b) How do business models adapt to overcome challenges in conflict-affected states?
- (c) How do domestic and international regulatory arrangements impact profitability and competitiveness?

Detailed notes from the meetings and online discussions are presented in Annex B. A summary of the highlights follows:

***(a) How does business affect peace?***

- The nature and scope of the business-peace nexus is largely dependent on the type of business. Hybrid models (e.g. private sector emphasis with heavy state control) have been particularly challenging.
- While we know a lot about relationships involving business and peace, relatively little is known about the direction and strength of causality.
- Extractive industry businesses are characterized by high-value, low-frequency contracts. This makes them particularly susceptible to corruption.
- The relationship is most productive when business goals are closely aligned with peacebuilding strategies/objectives.

***(b) How do business models adapt to overcome challenges in conflict-affected states?***

- Conflict-affected regions have a host of institutional, regulatory and oversight challenges. Severe market fragmentation has usually occurred and the non-formal sector is prominent (and in some cases predominant).
- Businesses face a host of risks – including information asymmetries, institutionalized corruption and often oppressive policy frameworks. Mitigation strategies could be negative or positive.
- Negative strategies include bribery, flouting international laws/standards, cutting corners and neglect of contractual arrangements.
- Positive strategies include support for anti-corruption activities, investments in human and physical capital and leadership in multilateral regulatory reform efforts.

***(c) How do domestic and international regulatory arrangements impact profitability and competitiveness?***

- Regulatory arrangements are only effective if all stakeholders comply. “Packaged” investments and muscular commercial diplomacy could pose serious challenges.
- Voluntary oversight mechanisms are a very useful first step. However, without effective sanctions their utility is questionable.
- Some regulations could increase business costs and make compliant firms less competitive. Innovative compensatory mechanisms should be considered. In this context, it is helpful to develop an assessment of aggregate costs (rather than focus on the impact of specific programs).
- Transparency and accountability are good for business. They improve predictability and enhance efficiency. In a rapidly globalizing world economy, some thought should be given to prioritizing discussions and strategies for open trade.

## **Important Recommendations**

- Economic reconstruction requires much more than humanitarianism. More attention could be paid to prioritizing the role of the business sector.
- More research is required into the analysis of conflict-sensitive business models. This would include more detailed studies of causality, impact, relative costs and outcomes.
- Trade and investment could be pivotal in helping societies transition from aid dependence to self-sustaining economic growth. This transition requires closer attention.
- Better integrating the business sector into foreign policy and national strategy plans/documentation is critical. An enabling regulatory framework is needed.

## **Next Steps**

- Prepare draft report and reconvene Task Force in May/June 2011.
- Finalize and publish initial Task Force report. Host event to discuss and refine recommendations and elements of a comprehensive strategy. (Summer 2011).
- Identify first set of issues for detailed policy analysis and Task Force deliberation. (Summer/Fall 2011)

## **Annex A: Membership of Business and Peace Task Force**

VICKY A. BAILEY is a principal of BHMM Energy Services LLC, president of the Anderson Stratton International. She is a former Assistant Secretary for Policy and International Affairs (2001-2004) of the U.S. Department of Energy

GRACIANA DEL CASTILLO is a Senior Research Scholar at Columbia University and a founding partner (with Mario I. Blejer) of MAG (Macroeconomic Advisory Group). She was the first senior economist in the Cabinet of the UN Secretary-General and a former Special Economic Advisor to Bernard Kouchner, and the Special Representative of the Secretary-General in Kosovo, after the 1999 war.

LTG (RET.) DANIEL W. CHRISTMAN, is the Senior Counselor to the president of the U.S. Chamber of Commerce. He is a former superintendent of the United States Military Academy at West Point and assistant to the chairman of the Joint Chiefs of Staff.

ANDREW CUNNINGHAM writes and consults for Middle East Economic Digest (MEED) and the Middle East Economic Survey (MEES). He is a former executive with the Financial Services Volunteer Corps (FSVC) and analyst with Moody's, the international rating agency.

DR. VIRGINIA HAUFLEER works with the Harrison Program on the Future Global Agenda, and the Center for International Development and Conflict Management at the University of Maryland. She is a former advisor to the UN Global Compact Principles for Responsible Investment and a Senior Associate at the Carnegie Endowment for International Peace.

DR. ARTHUR KEYS is the President, and CEO of IRD, which he founded in 1998. He has overseen the distribution of more than \$1.75 billion in humanitarian assistance to Asia, Africa, Latin America, Eastern Europe, the Middle East, and the United States Gulf Coast.

AMBASSADOR DAVID LITT is the Executive Director of the Center for Stabilization and Economic Reconstruction. He is a former U.S. Ambassador to the United Arab Emirates (1995-1998), Consul General in Dubai and Political Advisor to U.S. Central Command and U.S. Special Operations Command at MacDill Air Force Base.

SHARON L. MORRIS is Director of Mercy Corps' Conflict Management Group. She is a former Director of a Provincial Reconstruction Team Program in Afghanistan, Development Advisor to the Commanding General of U.S. military operations in Afghanistan, and Senior Advisor in the Office of Conflict Management and Mitigation at USAID

KEITH REINHARD is founder and President of Business for Diplomatic Action (BDA), a not-for-profit private sector effort to enlist the U.S. business community in actions aimed at improving the standing of America in the world. He is also Chairman Emeritus of DDB Worldwide, which ranks among the world's largest and most creative advertising agency networks with 206 offices in 96 countries.

## **Annex A: Membership of Business and Peace Task Force (cont'd)**

AMBASSADOR (Retired) CHARLES RIES joined the Clinton Bush Haiti Fund as Executive Vice President in July 2010. He is on a leave of absence from the RAND Corporation where he was appointed Senior Fellow in February 2009. He is a former Coordinator for Economic Transition at U.S. Embassy in Baghdad and U.S. Ambassador to Greece.

JULIA ROIG is the Executive Director of the Partners for Democratic Change, an international NGO dedicated to building sustainable capacity of civil society to manage change and conflict. She is a licensed attorney with fifteen years of diverse international management experience working and living abroad under USAID and World Bank contracts.

DARRYL A. SCOTT is corporate vice president, contracts and pricing for The Boeing Company. He is a retired Major General in the U.S. Air Force. He is a former Deputy Commander, Task Force to Support Business and Stability Operations in Iraq, Office of the Deputy Under Secretary of Defense (Business Transformation), and Deputy Director, Defense Business Transformation Agency.

ARTHUR SCULLEY is an International financial specialist at JP Morgan in project finance, funding developing country debt, management of central bank reserves, asset management and corporate finance in US, Asia, Middle East and Europe.

FRANCIS SKROBISZEWSKI is an international financial consultant with 30 years of experience spanning investment fund management, law, socio-economic development, crisis communications and public affairs, government agency reform and strategy development working in the United States, Europe, Africa, Asia and the Middle East. Skrobiszewski consulted President Bush on the Polish economy, and as a part of a three-member team prepared a review of the Environmental Protection Agency for President Regan.

DR. JOHN D. SULLIVAN is Executive Director of the Center for International Private Enterprise (CIPE), which is an affiliate of the U.S. Chamber of Commerce. In 1983, he was associate director of the Democracy Program that created the National Endowment for Democracy and CIPE.

DR. CAROLYN WOO is Dean of the Mendoza College of Business at the University of Notre Dame; it is currently ranked the highest undergraduate business and ethics curriculum. She co-convened the United Nations Global Compact initiative Principles for Responsible Management (PRME). She received the International Council for Small Business Distinguished Scholar Award, and the Salgo-Noren Award for Outstanding Teaching in the Master's Programs.

## Annex B. Note from Task Force meetings and the eSeminar

### *Topic 1: The Business-Peace Nexus*

#### *Observations Made in Initial Meetings of the Task Force*

In the initial meetings of the Task Force, a nearly immediate question pertained to the type of business is being considered as one that can impact – positively or negatively – peace. Multinational corporations easily come to mind because of their size and visibility and may well play an important role. They may be, for example, a key source of direct investment. A large multinational could have leverage with local government because of its size and resources. If a large multinational so chose, it might adopt practices that enhance peace and require suppliers to adopt similar kinds of practices, akin to what some companies – such as Motorola – did with respect to quality programs and insisting that local suppliers (in countries outside the United States) adhere to quality standards and/or compete for quality recognition.

However, multinationals are not the only kind of business and may not necessarily be the most important in a conflict zone (however that is defined – conflict sensitive, post-conflict, etc.) Local businesses may well have greater impact on local economies and may have greater desire to promote practices that create stability. A State-owned business, by definition, may be likely to be an instrument of those in power, which could enrich cronies and further marginalized despised ethnic minorities or it could be a force for transforming a society.

Inventorying the full range of businesses and their impact on peace is worthwhile and, assuming the possibility of follow-up Commissions to this Task Force, would be a central aim of such a Commission's work. However, for purposes of the limited time frame of the Task Force's existence, let us focus on the impact of MNCs and the challenges they face.

A major set of MNCs, extractive companies, have often been identified as creating tensions that make civil war more likely. Their central economic resource is control of specific territory. Revenues from resource-rich countries have also been recognized to create a "resource curse" that amplifies corruption and inequities in society. Service industries may have a different kind of impact. The most recent notable example comes from the Internet companies. In the recent regime changes in Egypt, for instance, Google and Twitter defied a shutdown of the Internet and, over a single weekend, created a workaround way for individuals to communicate. On the other hand, Vodafone and French Telecom followed governmental demand to shut services and then re-opened them solely to broadcast messages from the Mubarak regime. The controversy over Wikileaks led to financial firms (e.g. PayPal) cutting off resources to pay for Wikileaks downloads.

Further are businesses enhanced by peace? Or to put it another way, some businesses – those engaged in production of military goods for instance – may not necessarily be benefitted from peace since their market is the supplying of materials used in warfare. However, many businesses are benefitted by peace. How so and in what ways? What businesses are benefitted by peace and stability? Can we learn lessons from them?

*Key eSeminar Discussion Points. Session 1 (14-16 March)*

- Although business is often considered part of the problem in conflict-affected states, there is some evidence that it could be an important part of the solution.
- Business activity could be critical in facilitating the transition from aid-dependency to self-sustained progress in conflict affected countries.
- Different types of businesses impact conflict and peace in diverse ways. Distinctions could include: large multinationals vs domestic SMEs; public vs private ownership; extractives vs agriculture; formal vs non-formal. Aggregated analysis is therefore unhelpful.
- Conceptually, the goals of profitable business could be aligned with peace strategies if conflict-sensitive approaches are adopted. However, implementation is difficult --- partly because of the lingering and pervasive effect war economy.
- International investors are more impactful in furthering peace when they embrace good corporate citizenship and integrate domestic firms in a substantial proportion of their value chain.
- We know a lot about associations and relationships related to the business-peace nexus but very little about the direction or strength of causality. We need more detailed analysis to inform both business operations and policy.

***Topic 2: Overcoming Challenges in Conflict-Affected States***

*Observations Made in Initial Meetings of the Task Force*

Conflict sensitive zones are very likely to have poor institutional capacity for governance. This has direct implications for multiple business issues from the creation, maintenance, or resurrection of a legal framework for business to operate in to providing security. Businesses themselves have limited capacity to substitute for such capacities, yet businesses need them.

The lack of institutional capacity further implicates whether trade occurs in the formal or informal market, with the latter obviously being outside of normal regulatory efforts and creating competition issues for those companies aiming to work in the formal market.

Corruption is frequently associated with violence (leaving to the side whether corruption might lead to violence or whether the consequence of violence may make corruption more likely). This disrupts the level-playing field optimal for a fair, competitive business environment (this is related to the issues raised in Question #3).

Security forces become an issue in several ways. One is the extent to which such forces' aims are to ensure conditions for widespread participation in an economic and political system or, on the contrary, are meant to isolate and marginalize enemies of the security forces. A second issue is whether the security forces are public – and therefore more amenable to oversight and regulation or whether they are private.

A crucial question concerns whether and how we know whether certain activities and programs are successful. This includes whether a particular program from USAID or a transnational agency has the impact one might like to think it does and, more generally, to move beyond

simple correlative relationships and actually try to pin down causation between programs and conditions to specific instances of peace or violence.

Given these challenging conditions, how do businesses respond? How do they create resilience and strategies to challenging events. These events could be ones associated with corruption and fragmentation, but given recent events in the Middle East and North Africa, one finds a source of case studies that could be built upon in order to identify potential strategies to overcome even more acute challenges.

*Key eSeminar Discussion Points. Session 2 (17-21 March)*

- Information asymmetries and a predatory political economy in these states present complex risks for local and foreign investors. Adjustment strategies by firms have positive and negative consequences.
- Circumventing the challenges could involve corruption --- e.g. bribes to “lubricate” processes or avoid contractual/regulatory obligations. These could either trigger or sustain violence.
- Entrenched and pervasive corruption is a “coping strategy” for some firms; for others it is all about profit maximization.
- Firms find it difficult to correctly identify spoilers and enablers in a complicated environment.
- Compliance mechanisms are good for business and peace --- but only if all businesses comply.

***Topic 3: Creating a Level Playing Field***

*Observations Made in Initial Meetings of Task Force*

Peace (at least a “just peace”) is a undoubtedly a worthy goal, but if an aim of this Task Force is to examine the relationship between business and peace, we must consider what business needs to be successful.

One dimension of this pertains to U.S. laws that are applicable to business. While presidential administrations of both political parties have claimed to support trade, there are many regulations and laws that create disadvantages to businesses. One of those is the Alien Tort Act which threatens to bring U.S. companies to trial in the U.S. for activities of foreign subsidiaries. Recent examples include alleged complicity of Chevron with human rights violations by military guarding pipelines in Burma/Myanmar. Another example is lawsuits against Internet Service providers such as Yahoo, Microsoft, and Google in China for turning over names of users for violating Chinese speech laws. From a regulatory perspective, the impact of the Foreign Corrupt Practices Act and various immigration issues create obstacles – perhaps appropriately and perhaps not) to economic development by businesses.

A second dimension pertains to questions of incentives. If we believe that responsible economic development has salutary impacts on stabilizing an economy, should there then be incentives to invest in conflict-sensitive areas? For example, if it would be beneficial to create economic

development in Pakistan or Egypt, should there be incentives – tax rebates, trade/tariff incentives – to encourage such work?

A third dimension pertains to the extent to which the military and business have shared goals. In any conflict-sensitive zone, the military and new businesses will be linked. Are there goals aligned? Are security measures integrated with business concerns? Do civil military personnel have training to be able to recognize issues that are important to the businesses investing in the conflict zone?

A fourth dimension pertains to competition and challenges within the host country itself. To what extent is business activity perceived positively – as a stabilization of an area and with it, employment and development – or is it viewed as intrusively imposing a foreign culture? Some religious scholars (e.g. Scott Appleby and Karen Armstrong) argue that a cause for religiously-based terrorism is 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” so that extreme measures are justified in order to preserve historical cultural and religious traditions. Which, then, businesses and business strategies are best positioned to provide the economic development that is stabilizing and uplifting rather than threatening.

A final dimension, perhaps encompassing in different ways all of the above, is the coordination issues pertaining to competing with businesses from other countries. Business values and national foreign policies may or may not coincide with American business customs – for better or for worse – or with U.S. foreign policies.

*Key Discussion Points. eSeminar Session 3 (22-25 March)*

- Rules are only effective and peace-promoting if all players (domestic and foreign) are compliant. Packaged aid/investment from bilateral or quasi-bilateral sources (e.g. China) could be particularly problematic.
- Some regulations could increase business costs (e.g. new reporting requirements). More attention should be paid to mechanisms that mitigating these costs.
- Unequal implementation and opportunities for avoidance are strong disincentives. Both national and international regulatory mechanisms should be compressive.
- International initiatives like EITI and the Voluntary Principles would only be effective if non-compliance has tangible consequences.
- Bilateral initiatives (like Frank-Dodds) must be analyzed within the context of promoting a level playing field, prevailing incentive structures and overall effectiveness.