

*"The conflict in the Democratic Republic of the Congo has become mainly about access, control and trade of five key mineral resources...Business has superseded security concerns. The only loser in this huge business venture is the Congolese people"*

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# CONFLICTING INTERESTS

by **Jason Switzer**

Since the end of the Cold War the incidence of violent civil conflict has been on the upswing. This is especially the case in poorer countries, with the last decade seeing widespread civil violence in 15 of the world's 20 least developed nations (UNDP). Consideration of such conflict figures prominently in corporate investment decision-making. A 2001 survey of the mining industry sought to identify the reasons companies refrained or withdrew from otherwise sound investments in the last 5 years. 78% said political instability – in particular, armed conflict – was a key reason.

Violent conflict disrupts markets and destroys infrastructure. Workers can be displaced or kidnapped and supply chains broken. Moreover, companies face accusations of complicity in violence, of fuelling or even causing civil war. On the strength of such allegations, some

firms have been publicly shamed and targeted with sanctions. They have faced popular protest, legal action, stock divestment campaigns and consumer boycotts. Prominent examples include Shell in Nigeria, and Talisman Energy and Lundin Oil in the Sudan.

## BUSINESS AND CONFLICT

**Business can cause conflict over control of the resource or area.** In the Alligator Rivers/ Kakadu region in northern Australia, a national park was proposed, a substantial body of uranium ore was discovered and the issue of Aboriginal land claims was raised. Competing uses of the same resource-space have led to over 25 years of unresolved conflict.

**Business can cause conflict over the right to participate in decision-making and share in benefits.** It was reported that in Ecuador in 1997, several forest communities sought a meeting with the management of a mining subsidiary of Mitsubishi. After apparently being rebuffed, the community representatives are said to have catalogued and removed all goods and equipment from the mine site, before burning everything still standing to the ground.

**Business can finance – directly or indirectly – the repressive efforts of one group against another.** It is alleged that Talisman Energy is directly complicit in conflict in the Sudan, by letting government forces use the company's airstrip from which to launch raids.

Talisman is also accused of indirect complicity through oil revenue being used to finance military operations and purchases.

**Companies can benefit from a conflict situation.** It was recently reported that Lundin Oil, a Swedish oil company, was granted a concession in southern Sudan. Allegedly, in order to guarantee the safety of the oil company's operations and clear the area for a road to the concession, the government waged a 'scorched earth' campaign against the local communities.

**Companies can be a target of conflict.** Combatants may target companies to gain indirect access to political decision-makers. The continued criticism of Shell's operations in Nigeria in spite of apparent efforts at reform may illustrate underlying social problems in the country more than injustices associated with the company's activities.



Other firms have played prominent roles in conflict prevention, conflict resolution and post-conflict reconstruction. Lonrho actively engaged in facilitating the peace process between Mozambique's rebels and government in the early 1990's.

### CONFLICT MANAGEMENT

Conflict typically emerges from a complex mix of causal factors, such as insecure or inequitable access to resources, competition between social groups for political power, or incompatibilities between groups with distinct value systems.

A company can play the role of instigator or victim of violence. It can profit from the conflict, or avoid playing any role at all. The company can be a party to the conflict, or be a lead player in seeking to achieve its resolution. Many of these roles can be taken up intentionally or inadvertently, with a company frequently playing more than one role simultaneously.

There are three basic means for resolving conflict: reconciling disputants' basic interests, typically through negotiation or dialogue; adjudicating between rights, such as through a legal process; or contests of relative power, through strikes or military force.

A manager who is faced with a conflicted, or potentially conflicted situation, may advise her company not to enter into the investment, or to divest from an existing investment. She might advise the company to deal with the impacts of the conflict and conflict-related issues as they emerge, or she can argue for a systematic conflict management strategy.

Systematic management of risks typically involves a set of activities to reduce the costs should an adverse event occur, to shift the costs to other parties and to reduce the likelihood of adverse event itself. In managing the risk of oil spilling from its supertanker, for example, a firm would: prepare a rapid-response clean-up team; purchase insurance against the event happening, and double-hull the tanker.

The equivalent approach to conflict would involve a portfolio of strategies designed to:

- **Reduce the impacts of adverse events – kidnapping of personnel, destruction of property, public naming and shaming – by hiring the services of a professional security firm, establishing a public relations strategy or building walls around its operations;**
- **Share the costs of adverse events by maintaining political risk insurance or partnering with the host government or an international financial institution such as the World Bank.**
- **Reduce the risk of adverse events through proactive conflict management – identifying, reducing and resolving the sources of social tension that lead to conflict.**

While the first two strategies have frequently been employed in the past, it is only in recent years that companies have recognised the potential payoff from engaging in proactive conflict management. According to a joint study by International Alert and the International Business Leaders' Forum, "there is an economic benefit [for companies] in resolving violent conflicts and preferably preventing them from happening in the first place". So how are companies proactively managing conflict?

### TOWARDS PROACTIVE CONFLICT MANAGEMENT

A firm can determine how proactive to be in conflict management based on an assessment of the costs and benefits of the various options; the causes, nature and stage of the conflict; the firm's relationship to the various actors and the firm's conflict management capacity, financial and ownership structure and reputational exposure.

The firm may then develop proactive management activities to address conflict prevention and resolution, conflict impact reduction, and post-conflict reconstruction. The more direct a company's engagement in the conflict, the greater the risk to its reputation and personnel.

## exec summary

**Instability is affecting much needed investment in some of the poorest nations in the world. The risks involved in conflict make companies justifiably cautious, and they may well feel it is not for them to intercede, but just as pro-active action to tackle pollution can pay dividends so can pro-active involvement in conflict resolution. Care is needed though, if a company is going to get involved there are many pitfalls to avoid. However, the scale of global corporations and the resources available to them means they can be important players in creating solutions.**

### EXAMPLES OF PROACTIVE ENGAGEMENT

**Advocate for Human Rights protection.** Mining company WMC has worked with indigenous communities in the region of the Tampakan prospect, on the island of Mindanao in the Philippines, to obtain official recognition of their indigenous status from their government, as a basis for royalty payments and legal protection of their ancestral domains.

**Preserve and enhance livelihood opportunities.** In order to head off confrontation between its staff and artisanal miners in the Las Cristinas prospect area in southern Venezuela, Placer Dome has allocated a tract of the concession to the local miners, also providing training in mining techniques and business management.

**Address environmental sources of conflict.** Talisman Energy in war-torn Sudan has responded to NGO, UN and government pressure by helping alleviate water pressures in the region. The company is working in partnership to survey water needs and develop community wells. It is also providing residents with conflict resolution training.

**Develop common standards of practice.** In January 2001, a group of oil and mining companies, NGOs and the governments of the US and UK established common principles – albeit voluntary – for business to use in "maintaining the safety and security of their operations within a framework that ensures respect for human rights and fundamental freedoms"



*Globally, while the number of violent conflicts has declined since 1987, 95% are taking place within national borders, killing over 1,400 people each day of the last decade.*

World Bank/UNDP

Proactive conflict management interventions include:

- **Information gathering and sharing, such as through social and environmental impact assessment; stakeholder identification and empowerment, or sponsorship of fact-finding missions;**
- **Diplomatic intervention, through mediation, dialogue and appeal to outside diplomatic efforts**
- **Provision of incentives and negative sanctions to the various actors, such as through investment, capacity building, and threat of divesting.**
- **Direct intervention in conflict, such as by putting private forces on the ground to preserve the peace.**

## CHALLENGES

The legitimacy, accountability and effectiveness of sticking a corporate nose in the affairs of a conflicted society are controversial issues. A company's participation in the prevention or resolution of violent conflict is necessarily limited by the duration of the company's operations in the area. Moreover, companies may be good at building value, but are they good at making peace? In spite of their best efforts in proactive conflict management, firms may still be seen as complicit in the violence, as long as they continue to operate in a particular region.

Misplaced intervention can draw unwanted attention to the company both locally and internationally. And it can make a bad situation worse. On the other hand, corporate financial and managerial capacity often outstrips that of the state in which it is operating, and firms can sometimes act far more decisively – and effectively – than official multilateral organizations.

The greater a firm's direct involvement in the conflict, therefore, the greater the need to work in partnership with civil society and

international organisations, governments and community groups. Otherwise, the firm will face challenges in regard to its legitimacy in tampering with a country's domestic affairs, and in regards to its limited know-how in addressing complex community development and political affairs.

Likewise, a company needs to be strategic in identifying those areas of intervention least likely to deepen social cleavages. In many cases of conflict, access to or quality of natural resources may be the bone of contention most amenable to resolution. One of the conclusions of the World Conservation Union's Task Force on Environment and Security is that common environmental interests can bring disputants together in dialogue and innovative problem solving.

## PRO-ACTIVISM PAYS

As the discussion above has made clear, the risk of conflict is a prominent factor in international investment decisions, a threat to capital stock, to reputation, to share price and to personnel. Traditionally, companies have managed this risk through public relations campaigns, danger pay, insurance, and private security forces. Yet this is an end-of-the-pipe approach to political risk management. It does nothing to address the underlying roots of insecurity and of investment risk.

In the field of environmental management, proactive investments in pollution prevention and 'continual improvement' have often paid for themselves by reducing the costs of legal compliance. Proactive investment in community stability might also pay dividends by protecting a firm's 'social license to operate' more efficiently than the 'end-of-the-pipe' alternatives.

It is in the interest of all for managers operating in regions where the potential for violence is high, to learn to manage conflict in a practical and systematic way. ■

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## LINKS

### [www.international-alert.org](http://www.international-alert.org)

for The Business of Peace, International Alert, with the Council on Economic Priorities and the Prince of Wales International Business Leaders' Forum.

### [www.bpdweb.org](http://www.bpdweb.org)

World Bank/UK DFID project on Business Partnerships for Development.

### [www.unglobalcompact.org](http://www.unglobalcompact.org)

The United Nations Global Compact, a tripartite partnership between the UN, NGOs and companies, recently held a dialogue on business and conflict.

### [www.iisd.org](http://www.iisd.org)

for the forthcoming report of the IUCN/IISD Task Force on Environment & Security.

### [www.hrw.org](http://www.hrw.org) / [www.globalwitness.org](http://www.globalwitness.org)

two organizations that have been leaders in identifying and publicising the links between human rights violations, conflict and private sector activity.