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Multinational enterprises, risk management, and the business and economics of peace

Jennifer Oetzel

Kogod School of Business, American University, Washington, USA, and

Jason Miklian

Center for Development and the Environment, University of Oslo, Oslo, Norway

Abstract

Purpose – The purpose of this paper is to reconceptualize how managers of multinational enterprises (MNEs) manage risk, particularly in fragile and/or conflict-affected areas of operation. The authors suggest that MNEs consider reducing risk at its source rather than trying to avoid or react to risks as they occur. By incorporating peacebuilding strategies, managers may not only reduce investment risk but also contribute to stability and prosperity in the communities where they operate, and gain a competitive advantage in doing so.

Design/methodology/approach – The authors show how firms can take a more holistic approach to working in conflict-affected areas. They do so by overlaying conceptualizations of risk with those of peacebuilding and then use case examples to illustrate how such actions work in practice.

Findings – Using a series of examples, the authors find that MNEs that incorporate peacebuilding frameworks in their risk calculations in complex settings tend to have a better understanding of local environments and how they affect firm operations and profitability. These same MNEs may hold a long-term advantage over international competitors that do not share the same understanding.

Originality/value – The authors argue that the study of relationships between international businesses and society in conflict-affected or fragile areas of operation is under-developed and tends to focus on negative (risk-aversion) aspects as opposed to positive (value-added) opportunities. This paper offers new ways in which these relationships can be reconceptualized. The authors' main takeaway is that a peacebuilding approach does not require corporations to be arbitrators of peace at the expense of profit. Rather, it is instead a broader way to conceptualize and weigh risk when working in the world's most challenging regions. This approach is more likely to be in the long-term interest of both the firm and the local society where the firm operates.

Keywords CSR, Risk mitigation, Corporate sustainability, Peacebuilding, Business for peace

Paper type Research paper

Introduction

Understanding the environments in which multinational enterprises (MNEs) operate is a major topic of interest in international business. The institutional, cultural, political and economic characteristics of different countries and their impact on business activity have received substantial attention in the research (Brouthers, 2013; Cantwell *et al.*, 2010; Luo,



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2006). Related research has also focused a great deal on the risks that businesses face including institutional failures, crime, political instability and violence (Asongu and Nwachukwu, 2017; Dai *et al.*, 2016; Darendeli and Hill, 2016; Fatallah, 2017; Henisz *et al.*, 2014; Katsos and Alkafaji, 2017; Oetzel and Getz, 2012; Oh and Oetzel, 2017; Ramos and Ashby, 2017). As international business scholars, we spend a great deal of time focusing on how to protect MNEs from risks, but seldom do we focus on how managers of MNEs might reduce risk at its source and promote peace and stability in countries facing complex challenges. Our goal in this article is to suggest that business can, in fact, contribute toward peacebuilding and that there are numerous self-interested reasons that managers may choose to do so.

To some, peacebuilding[1] may seem like an unlikely topic for the business literature. If polled, it is likely that a significant number of managers of MNEs would not consider peacebuilding as the “business of business”. For many academics and practitioners in conflict-prone regions of the world, however, it goes without saying that managers must understand how to address violence and political risk and work to strengthen institutions, promote the rule of law and support social justice.

For example, while every age has its grand challenges, today, businesses and societies are concerned with ongoing terrorist threats, political conflict, the rise of populism in many parts of world, including the USA, Britain and the Philippines, and strong anti-globalization sentiments. There is also a sense that global business and trade are leaving some portions of society behind. Given the central role that MNEs play in many of these debates, managers may need to consider how to effectively approach these types of problems.

One of the challenges in starting to think about the role of business in promoting peace is that peace, as a goal, is hard to define and difficult to measure. If a country is experiencing conflict and political violence, however, the risk and its impact on business and FDI can be immediate and obvious to managers (Seno-Alday, 2015; Suder and Czinkota, 2005; Vijayakumar *et al.*, 2009). The result is that social scientists have generally focused more research on violence, conflict and political risk than on how to promote peace and stability. Contributing to the imbalance in research is the fact that, at least in the USA, research on conflict generates significantly more grant money than peace-oriented studies.

Another challenge is how to determine the factors that lead to a more peaceful society. In much of the contemporary literature, peace is defined as the absence of violence or negative peace. As peace is more than the absence of violence, this definition is incomplete. Positive peace suggests that at a minimum, there is a fundamental sense of justice and fairness, widespread economic opportunity, a legal system that functions freely and fairly and that the factors that caused conflict in the first place are not just suppressed but eliminated (Galtung, 1969; Oetzel *et al.*, 2010). While there are certainly many other factors that are relevant to peace, businesses, especially MNEs, are unlikely to address all of them, and business cannot be expected to eliminate conflict on its own.

Before we discuss in greater detail how and why peacebuilding is relevant for international business, it is important to recognize that business is just one of a larger set of actors working to reduce conflict and increase peace. We also are not suggesting that businesses should be responsible for fixing all the problems in a country. In fact, historical evidence suggests that when business actually supplants the role of government and civil society, the outcomes can be grim (Reiff, 2000). Instead, our goals are to discuss how businesses might engage in peacebuilding, review what the benefits are to business of working toward positive peace and suggest how MNEs can avoid unintentionally contributing to conflict.

Business and peacebuilding

Why would multinational enterprises adopt peacebuilding strategies?

If managers could actually reduce risk at its source, and possibly gain a competitive advantage by doing so, that would be a powerful motivation for peacebuilding as a means of risk mitigation. Doing so requires new ways of conceptualizing the problem and a willingness to redefine what we mean by risk management (Bansal *et al.*, 2017). Several reasons that this process has begun to happen over the past two decades is because of the limitations and failures of current approaches, the changing expectations of stakeholders and the need for managers of MNEs to recognize and to address the complex risks facing business and society. Here we discuss each of the reasons in turn.

Limitations and failures of current approaches. The natural desire to avoid risk or to rely on governments to manage it is understandable. The problem with this approach is that avoidance is not realistic in the complex and dynamic business environment that many MNEs are facing today. In addition, many governments today lack the resources, capabilities or the will to contain problems within their borders. This puts the onus on managers to address problems that are traditionally the responsibility of the public sector.

Changing expectations. There are many reasons why MNEs may engage in peacebuilding efforts. One recent example is the case of Apple, Intel, Tiffany & Co., among others, and the 2010 USA Conflict Minerals Law overseen by the Security and Exchange Commission. The law requires US companies to avoid using minerals that fund conflicts and lead to human rights abuses in the Congo region. Contrary to many news reports indicating that business was staunchly against the law, once politicians suggested that they intended to eliminate it or water it down, businesses like Apple, Intel and Tiffany & Co. publicly announced their vocal support of the provision. According to the companies involved, the law has “created an expectation both inside their company headquarters and among consumers that their products will be ‘conflict free’” (Frankel, 2017). Eliminating the law, many groups argue, (e.g. the International Conference on the Great Lakes Region, 41 Congolese civil society organizations, Pact, etc.) would lead to a significant increase in violent conflicts in Congo. In this case, even though peacebuilding may not be the primary reason that the companies involved are supporting the Conflict Minerals Law, the fact is that their actions do make a positive difference for those living in conflict-affected countries. Moreover, widespread industry support for the law increases the power of the legislation.

Need for multinational enterprises to address complex risks that affect business and society. Even when businesses do not actively seek to promote instability, they may find that their day-to-day operations are unintentionally contributing to violence and conflict. The creation of the Global Internet Forum to Counter Terrorism is an example of one such effort to address this type of problem. Facebook, Microsoft, Twitter and Google (YouTube) have joined together to make it harder for extremist groups to use their hosted consumer services to promote terror and violence (Burgess, 2017). The group’s aim is to formalize and structure existing and future areas of collaboration between member companies and foster cooperation with smaller tech companies, civil society groups, academics, governments and supra-national bodies such as the European Union (EU) and the United Nations (UN). A similar group exists in the, the EU internet forum.

Gain a competitive advantage. MNEs that understand how to directly or indirectly reduce risk may find that they are well positioned to take advantage of business opportunities that other firms avoid. One example is the case of Four Seasons Hotels. Unlike many of its competitors, the Four Seasons has been able to open new hotels in countries facing violent conflict (Conlin, 2006; Oh and Oetzel, 2017). For example, despite the fact that Lebanon was in the midst of war in 2006 after the assassination of Rafic Hariri (the former

Prime Minister of Lebanon) in 2005, the Four Seasons continued its plan to establish a new hotel in Beirut. After a planning period, the new hotel opened for business in 2010. The company prides itself on the fact that, “After 9/11, we were one of the few hotel companies that did not stop any of our projects” (Conlin, 2006). These reports suggest that the Four Seasons has developed internal capabilities around risk management that enable it to operate in politically risky environments. Given their track record post-9/11, it appears that they may have an advantage over their competitors.

Building on the previous example, academic studies have shown that context-specific knowledge or local ties may lead to an advantage when managing complex risks. In one study of 379 MNEs and their subsidiaries operating across 117 countries, researchers found that firms with a deeper knowledge of the country-context are less likely to decrease their investments in conflict affected locations, even as the conflict intensifies (Oh and Oetzel, 2017, p. 714). In another study, researchers found that MNEs facing severe political risk can increase their chances of survival by strengthening their social ties and, “by offering goods or services that are perceived as socially valuable” (Darendeli and Hill, 2016, p. 68).

While these examples are not explicitly about peacebuilding efforts, other researchers have demonstrated that firm expertise in cross-sector collaborations or “partnerships for peace” aimed at reducing risk and promoting peace do have the potential to confer competitive advantage to firms operating in conflict zones (Kolk and Lenfant, 2015a, 2015b). In fact, there is evidence that knowledge of conflict-affected environments may spur innovation, particularly around MNE response to risk (Jamali and Mirshak, 2010; Kolk and Lenfant, 2010, 2016).

Is peacebuilding by business actually happening in practice? To some extent, academia is behind business practice in terms of recognizing the limits of existing business tools to address complex challenges in international business and acknowledging that MNEs have a role to play in contributing toward more peaceful and secure societies. The International Council of Swedish Industry (NIR) is arguably the leading business association in Sweden. The aim of NIR is to “support and broaden the scope of operations of Swedish business in markets which are politically, economically or socially complex” (NIR, 2017a). The organization specifically lists “Business and Peace” as one of its areas of expertise. The challenge with accessing many of the world’s fastest growing markets, suggests NIR, is that:

[...] with many of the world’s fastest-growing markets experiencing violent conflict or undergoing post-conflict processes, business increasingly faces concerns about how their activities may aggravate or alleviate the effects of violent conflict. Legitimate private sector actors have an interest in peace and political stability. Threats of open violence, lack of stable political institutions and unpredictable economic frameworks hinder or even prevent private sector activities from taking place by increasing operating costs and disrupting lines of supply. While the primary responsibility for peace, security and development must rest with governments, private sector actors can make an important contribution to stability and security in conflict-affected and post-conflict areas (NIR, 2017b).

Encouraged by many of the largest MNEs in Sweden to provide guidance on these issues, NIR has produced several publications including *Managing in Complex Environments: Questions for Leaders and Private Sector Actors and Peacebuilding*.

Another organization that promotes peacebuilding by managers is the “Business for Peace Foundation”, also in Oslo. Since 2009, this organization has recognized well over 40 business leaders from around the world, including Richard Branson, Paul Polman and Elon Musk, for their contributions to peacebuilding at the annual “Oslo Business for Peace Summit”.

As suggested earlier, an especially challenging aspect to many of these issues is that the solutions to conflict reduction and peacebuilding are generally context-specific (Oh and Oetzel, 2017). Further, conflict dynamics rarely fit into neat categories like “post-conflict” or “formal peace” in practice, making it hard for even peace practitioners to be able to accurately survey conflict landscapes for risks and opportunities. Academics and practitioners in international business, however, should be well positioned in this respect. By definition, international business requires an understanding of the institutional, cultural, political and economic context in which business takes place (Suder and Czinkota, 2005). Next, we discuss specific strategies and tactics that firms can adopt to promote peacebuilding.

What can businesses do?

There are a variety of strategies and tactics that managers can use to reduce conflict and promote peacebuilding. In deciding what approach to take, managers must consider whether they want to act alone or in collaboration with other firms or organizations. Depending upon the particular challenges at hand and the resources and capabilities of the firm, managers may choose to directly or indirectly reduce risk at its source by mitigating the factors that undermine peace (Oetzel *et al.*, 2007).

For many reasons, we expect that most firms will choose to work with other organizations, either formally or informally. The benefits of doing so are numerous. First, this approach enables firms to share any costs associated with their efforts. Second, to address complex challenges, different perspectives are often quite valuable. Organizations working together from different sectors may also develop more creative solutions. Third, as managers are not trained to think about reducing risk at its source or to engage in peacebuilding, the necessary expertise is often outside the firm.

Most firms will probably not work alone to directly reduce risk at its source, but those that do will tend to be large MNEs with substantial resources. Anglo-American Mining Company is one such company that has been credited with directly promoting peace. Concerned about its ability to raise capital and its overall profitability and survival during the Apartheid era in South Africa, Anglo-American reportedly facilitated negotiations between the African National Congress (ANC) and the South African government between 1984 and 1990 in an effort to promote peace in the country (Lieberfeld, 2002; Oetzel and Getz, 2012). While only a firm with the size and influence of Anglo-American mining is likely to have the power to bring two groups like the ANC and Apartheid government in South Africa to the table for meaningful peace negotiations, firms of all sizes can play a positive role in mitigating violence and promoting peace.

Any organization can work to indirectly affect the factors that undermine peace in a country. For example, firms can act alone to address ethnic conflict or racial tensions in the work place. Doing so may not only improve organizational culture and productivity but also can have positive spillover benefits to the wider society (Benjamin *et al.*, 2015; Bader and Schuster, 2015; Lee and Reade, 2015; Reade and Lee, 2012).

Managers can also audit their supply chains to make sure they are not directly or indirectly fueling conflict. Mo Ibrahim, founder of African mobile phone giant Celtel, has demonstrated that it is possible to operate in highly challenging environments without contributing to conflict or engaging in corruption. In the early days of Celtel in Africa (late 1990s), the company entered several countries embroiled in civil wars. One such country was Congo, specifically Brazzaville, the capital. At the time Celtel entered:

[...] the city of Brazzaville was filled with checkpoints staffed by armed combatants, including child soldiers. Buildings had been looted, their windows blown out, and there was no functioning

road between Brazzaville and the second-largest city, Pointe Noire. The instability of the area kept the UN from sending its personnel to the country. (Jones and Campbell, 2014, p. 11).

Despite the challenging country conditions in Congo, Celtel realized that there were no other cellular services to speak of and phones were in high demand. Thus, because of the ongoing conflict, there was virtually no competition.

Celtel did not let the environments where they operated affect their approach to business. In a number of conflict-affected and corrupt countries they entered, the company never “adapted” to the environment by paying bribes to purchase telecommunications licenses or to set up their cellular towers. Instead, they made their no bribes policy clear up front. In one country, Celtel found that there was no way to avoid paying a bribe if they wanted to operate there. Rather than do so, Celtel withdrew from the country and forfeited a sizeable initial investment in infrastructure (Jones and Campbell, 2014).

Mo Ibrahim’s successful approach to doing business in Congo and other conflict-affected countries in Africa demonstrates that there are alternatives to “business as usual”. His actions have inspired other managers and their firms to follow in his footsteps, and he is now a highly influential thought leader on corporate governance in Africa.

Discussion and examples of multinational enterprises practices around peacebuilding

On the basis of our review of the literature and first-hand case studies and interviews, we propose that MNE practices around managing complex challenges follow something of a normal distribution. On one end of the distribution, there are firms engaged in war profiteering or are operating in such a way that managers knowingly benefit from and contribute to an increase in violence and conflict. For most firms in the distribution, however, we expect that they are neither consciously working toward peace nor intending to foster instability or conflict. In some cases, business as usual can actually have a large positive impact on a country simply by providing jobs and promoting economic growth (Fort, 2007). To the extent that businesses generate employment, offer a fair wage, good working conditions, etc., they can positively contribute to people’s lives, decrease unrest and, in some cases, reduce risk at its source. Unfortunately, it is not hyperbole to say that “getting ahead based on your merits” and having safe working conditions and fair compensation are still only aspirational in many parts of the world. If all businesses met these most basic of standards, the economic life of millions of people could be transformed.

At the far end of the distribution, there are firms that are actively formulating strategies and business practices aimed at minimizing risk at its source and promoting peacebuilding. An important point, however, is that firms rarely define a strategy as a “strategy to promote peace”. Rather, managers may define a firm’s actions by the issue it addresses or the long-term economic and social effects it has on society. For example, Paul Polman, the CEO of Unilever, received the Business for Peace Award in Oslo, Norway, for his efforts to reduce Unilever’s environmental footprint and increase its positive social impact while simultaneously doubling the size of the corporation. While the Anglo-American example in South Africa is clearly and directly aimed at peacebuilding, Unilever’s approach is not explicitly about peace. Nevertheless, by taking into account the environmental and social impacts of its business, the company has increased the economic, social and health-related well-being of those in its supply chain. In turn, these actions may reduce the likelihood of conflict in the areas where Unilever operates and enhances the prospect for long-term stability and peace.

Another example is the case of Starbucks. In response to the international refugee crisis, Starbucks announced a pledge (in January of 2017) to hire 10,000 refugees worldwide over the next five years (Spary, 2017). Doing so is expected to reduce the rate of social unrest, help

refugees to better integrate into their new home country and reduce the need for government assistance – outcomes that enhance stability and promote peaceful societies. Interestingly enough, a non-profit organization called Duo for a Job in Belgium has received international attention doing similar work. Unlike Starbucks, the organization does not directly employ program participants. Although the non-profit organization's work is considered highly impactful, because of its non-profit status, Duo for a Job is only able to reach a small portion of the people that Starbucks will in the course of its program.

Starbucks's effort is not exclusively altruistic. According to a consumer research firm in the UK, the British exit from the European Union (i.e. Brexit) will lead to a shortage of 40,000 baristas by 2025. By hiring refugees, at least in the UK, Starbucks not only helps refugees in need of employment but also benefits the company's bottom line. Starbucks' policy is not without its critics. Some consumers in the USA have advocated a boycott of the company suggesting that Starbucks put "America First" (Spary, 2017). Starbucks seems to be willing to take the heat, however, possibly emboldened by outgoing CEO Howard Shultz's dedication to the issue. It appears that the long-term financial, reputational and humanitarian benefits of the policy are significantly greater than short-term threats to the business.

When "business as usual" unintentionally fuels conflict

While MNE behavior within and across countries is likely to vary substantially, in general, given the population of firms we discussed earlier, a large number of MNEs are going about "business as usual" and neither consciously working toward peace nor intending to foster instability or conflict. Doing business as usual, however, can unintentionally worsen peace dynamics in fragile places. While firms can help to grow markets and thus contribute to improved conditions for peace, they can also exacerbate underlying conflict dynamics when they do not understand the context in which they do business and the impact of their operations. Businesses may also be ignorant of, turning a blind eye to or considering themselves not responsible for, the actions of their local partners. At times, local partners may engage in activities that contribute toward conflict and may violate national and international laws.

In this section, we briefly explore a few cases where MNEs, doing business as usual, have threatened peace and stability in the countries where they operate. These cases illustrate how the seemingly benign practices of partnering with local firms and outsourcing certain business activities to local providers can have serious consequences. These consequences for the MNEs may include legal liability, increased operational risk and damage to firms' reputations in the home and host markets. Following the case examples, we discuss alternative strategies for dealing with the complex problems raised in these cases. The first examples focus on Microsoft and Coca-Cola in Myanmar.

Microsoft and Coca-Cola in Myanmar. Microsoft and Coca-Cola were two of over 200 Western MNEs to enter Myanmar, or significantly expand operations there, when Myanmar's military junta announced plans in 2011 to liberalize. Ranking 170 of 190 countries surveyed by the World Bank in ease of doing business (World Bank, 2016), most sectors of Myanmar's economy have seen a dramatic expansion in investment, supported by international aid and development agencies under claims that foreign firms are solidifying a fragile peace through rapid socioeconomic development. While businesses are generating economic growth in the country, the unevenness of the distribution of wealth and opportunity has worsened societal cleavages. This is a serious concern as Myanmar still has 18 ongoing conflicts with most rooted in the uneven division of economic opportunities and civil rights, along with the heavy-handed rule used to maintain stability. There is little

indication that economic inequality in the country will improve in the near-term. For one reason, Myanmar's new wealth has largely been captured by elites who expropriated valuable assets when the country liberalized its markets. Also, because of a government policy requiring MNEs to form joint ventures with local partners, these same elites (who are highly politically connected) have become the natural local partners for foreign firms entering Myanmar.

For Microsoft, the policy that required MNEs to form joint ventures with local firms has meant launching a multimillion dollar joint venture in 2013 with the Shwe Taung Group, led by Aik Htun. Htun has been flagged by the USA Treasury as being a major drug trafficker and money launderer (Peel, 2015a), and he and his family are also subject to EU sanctions for corruption and money laundering in his former role as owner of Myanmar's largest bank. Shwe Taung Group is the sole licensor for Microsoft products in Myanmar. In response to the allegations, Microsoft claimed a "formal process of due diligence that includes verifying our (subcontractors) against the relevant local as well as US laws and regulations" (Peel, 2015a), and as of July 2017 continues to partner with Htun.

For Coca-Cola, this meant launching a partnership in 2012 with Daw Shwe Cynn, a jade kingpin under sanctions and barred from selling in the USA and other countries (Peel, 2015b). Cynn's firm has also been accused of human rights violations, corruption, land-grabbing and extensive environmental pollution in his jade empire (Global Witness, 2015). Located in Kachin, it is also the site of an ongoing civil war between the government and Kachin Independent Army. In response to the allegations, Coca-Cola conducted:

[...] additional due diligence after engagement with the NGO Global Witness. While our original assessment was based on the best information at the time, (new) findings were consistent with our original due diligence [(The) Coca-Cola Company, 2014].

As of July 2017, Coca-Cola continues to partner with Cynn.

While both firms (and many others in similar situations in the country) argue that they have followed proper due diligence procedures and are thus not legally liable for the actions of their partners, the fact remains that both firms continue to partner with conflict-inducing actors. These partnerships only legitimate and empower such actors. Thus, standard benchmarks for due diligence when selecting local partners in conflict settings have failed to consider such actors as sufficiently risky and left the companies exposed to major reputational and operational risk.

Why do these situations occur? During the process of selecting a local partner, Coke and Microsoft may have felt that they could only choose between potential partners who had ties to government and private sector elites. It is also possible that partnering with these firms may have paved the way for foreign firms to gain a quick foothold in Myanmar. Unfortunately, legitimizing and empowering questionable local partners contributes toward damaging Myanmar's broader business ecosystem at a time when professional skills are needed. For example, elites in Myanmar have not only consolidated their control of revenue and trade streams but also garnered increasing support for the expansion of ethnic cleansing campaigns. By engaging in such campaigns, elites are better positioned to secure new operational monopolies (Miklian, 2017a). Thus, while no single MNE is definitively "causing conflict" through its partnerships, the collective effect of hundreds of such relationships has facilitated an environment where suppression, ethnic cleansing and conflict are growing even as Myanmar's GDP spirals upward. The next two cases show how subcontracting, even though it is "business as usual", can increase violence and undermine peace and stability.

Beer in the Congo and Colombia[2]. The global beer trade has undergone a decade of rapid expansion and consolidation and carries a global product reach that is nearly unprecedented; or as Heineken put it in a recent ad campaign, “In 172 Countries and Still Thirsty”. However, getting the beer from the production plant to the farthest reaches of the country can be a challenge, especially so in conflict regions with poor infrastructure and battles over transport lines between conflict actors. The cases of Heineken in the Democratic Republic of Congo and AB InBev in Colombia show how firms outsource risk by outsourcing business activities to conflict actors (knowingly or unknowingly) to gain and maintain access to markets.

Delivered under the Bralima brand in the DRC, Heineken controls around 70 per cent of the country’s market share and contributes a staggering 35 per cent of the state’s revenue (Miklian and Schouten, 2014). Heineken operates like most DRC MNEs. To minimize risk and maximize profits, managers will, at times, use subcontractors for the most difficult or sensitive tasks (Miklian and Schouten, 2014; Miklian, 2017c).

In continuous operation since 1923 and bought by Heineken in 1960, Bralima has successfully negotiated their way through dozens of DRC conflicts. Since 1996 alone, 10 per cent of the country’s 77 million people have been killed and new conflicts erupt almost annually, including most recently in Central Congo’s Kasai region. The primary sources of revenue for rebels are the ubiquitous checkpoints placed on nearly all rural roads throughout the country. The checkpoints themselves are often little more than a wooden log or rope thrown across a muddy trail, perhaps with a shack nearby sheltering armed rebels (Miklian and Schouten, 2013). Still, even a single checkpoint can bring in over \$1m per year (UNGOE, 2008). This business model supplies enough money to fund a conflict in a country where the average wage is a dollar a day and AK-47s cost about \$50 (Miklian and Schouten, 2013).

Bralima is not exempt from extortionary “taxation”. The company pays over \$1m per year to such groups (Miklian and Schouten, 2013). For example, Mr. Damien, “tax collector” for the Congo rebel group M23, explained in 2013 that he charges a van about \$38 to pass, \$300 for a goods truck, and \$700 for a fuel tanker, and hands out official-looking receipts upon payment (Miklian and Schouten, 2013). These checkpoints served as a significant source of funding for M23, which was in turn used to purchase weapons, pay insurgent salaries and even deliver social aid to eastern Congo’s poor in exchange for allegiance. Damien said that M23 takes \$500 from the trucks hauling crates of Primus into rebel-controlled areas: “NGOs pay, people carrying charcoal pay, women going to the market pay – everyone pays! We don’t do preferential treatment. So, of course, those who transport beer also pay” (Miklian and Schouten, 2013).

If such payments were directly made by Heineken, they could be considered a violation of several laws in Holland, the USA and UN-supported sanctions. Thus, the firm uses a subcontractor model whereby independent truck drivers pick up the beer and are responsible for delivering it across the country. Any expenses, damages or conflict along the way is considered the sole responsibility of the drivers. The local Bralima headquarters in DRC’s capital Kinshasa also considers this issue outside their jurisdiction.

These dynamics are echoed in Colombia where SABMiller–AB InBev controls over 90 per cent of Colombia’s beer market and generates nearly 80 per cent of Colombia’s consumer tax revenue on sales of US\$10bn/year (Arbeláez and Sandoval, 2006; Dinero, 2016). Delivered under the Bavaria banner, SABMiller–AB InBev has used a subcontractor model similar to Heineken. For decades SABMiller–AB InBev has used subcontractors to deliver beer to areas controlled by rebel groups in the country, most notably the Revolutionary

Armed Forces of Colombia (FARC) and National Liberation Army (ELN) but also including paramilitaries, drug traffickers and other conflict actors. These checkpoint revenues generate a substantial revenue stream that is used to fund insurgent activities.

Like most firms tasked with distribution in Colombia, Bavaria chose to pay both rebel and paramilitary groups in rural areas to continue operations throughout the 1990s and 2000s. From 1991 to 1998, it is estimated that Bavaria faced looting and extortion by guerrillas amounting to an illegal levy of approximately US\$1.8m (Morales *et al.*, 2012). Initially, Bavaria refused to pay the levy and faced retaliation from FARC (Pax-Christi, 2002). Seven Bavaria factories were shut down and FARC imposed a beer ban across its area of control for several months (El Tiempo, 2001). Eventually, Bavaria settled on a solution. In conflict regions, it would continue to produce beer but turn over sole responsibility for distribution to subcontractors. Bavaria's contractors are thus SABMiller–AB InBev's sub-sub-contractors. As one Bavaria senior distribution executive working in the conflict zone explained (Bull and Miklian, 2018):

There were times when (distributor) trucks were incinerated. Let me be clear – Bavaria was never going to let themselves be formally tied to anything illegal. Often, the (Bavaria) distributor had to pay extortions and (the rebels) made a lot of money, becoming very important regional players. (Still,) the company sees itself as unrelated to the conflict.

Delivery drivers subcontracted by Bavaria support this assessment. They say that guidance from the firm is limited to unrealistic claims to simply, “not go into the bad areas” (but meet your sales goals), reimbursing drivers for extortionist payments in exchange for receipts and using the firm's lawyers to negotiate driver releases when they are kidnapped. One driver put it succinctly: “We are on our own the moment we drive out of the distribution center” (Bull and Miklian, 2018).

Considering peace-sensitive business practice

So, how might a conflict-sensitive approach improve the above cases? We recognize that leaving a market entirely is not always feasible or realistic. In addition, managers may focus more on the opportunity cost of leaving a potentially lucrative region rather than on the risk of staying. In addition, doing so may actually be counterproductive to business interests and even to peacebuilding if firms with less interest in conflict sensitivity and human rights take the place of those that leave. However, firms hold a significant amount of untapped political and social capital that can be unlocked through incorporating peacebuilding into risk frameworks. For example, nearly all firms entering Myanmar have stated their support of international human rights aims and established corporate social responsibility norms for operating in the country. The joint venture partners of these MNEs, however, may not share the same concerns.

Alternatively, managers can step back and leverage the substantial economic and reputational power of their MNEs. For example, both Coke and Microsoft could demand to choose a local partner whose practices are consistent with its stated values and whose actions do not violate international or MNE home country laws. In fact, they may have more leverage now than when first entering Myanmar given the global power of their brands and lack of precise substitutes. Also, if an MNE's actions (i.e. partnering with local firms that violate human rights and engage in widespread corruption) are inconsistent with its stated values and legal obligations, NGOs are increasingly willing to raise the alarm on such perceived corporate hypocrisy. Rather than decreasing its political risk by partnering with unsavory local partners, MNEs will actually increase their risk exposure. The resulting damage to the global brand may not only hurt the MNE internationally but also undermine

its reputation and threaten its long-term social and legal licenses to operate in the host country.

This outcome is not hypothetical. After the fall of Suharto in Indonesia in 1998, and the overthrow of Mubarak in Egypt in 2011, it became clear that many MNEs were complicit in the widespread corruption in both countries and turned a blind eye to the behavior of their local partners. Although these MNEs benefitted from the favors of these regimes while they lasted, the ultimate outcome was devastating in many cases. MNEs lost millions of dollars in investments in some cases and the countries as a whole suffered from substantial divestment by foreign firms (UNCTAD, 1999).

For Heineken and SABMiller–AB InBev, the reliance on subcontractors to use a “see no evil, hear no evil” hands-off approach regarding how their operations fund conflict is more problematic. These firms are paying rebel groups and paramilitaries millions of dollars with full knowledge at the national, regional and often global executive levels, that this money funds wars and terrorizes citizens. However, if they stopped working in such areas, these same rebels might simply import the products on the black market themselves and create a new lucrative revenue stream.

While there is no easy solution to this problem, one approach is to leverage the company’s “supplier” power. The beer companies could leverage the strong demand for their product to propose the terms of trade. While less likely, it may also be possible for the beer companies to refuse to pay the “tax” and negotiate an alternative arrangement. This option was reportedly used by at least one oil company during the civil war in Angola during the 1970s. Rather than pay bribes for a license to operate (money the company knew would be used to buy arms), the company negotiated a deal to build schools and provide social services[3]. Although the beer distributors may not have the political and economic leverage of a multinational oil company, they often have repeated dealings with the same group of combatants. As such, it may be possible to find an alternative agreement so that the company can provide schools or other social benefits but avoid making payments that will be used to fund conflicts. Finally, the guerrillas may also be aware that if these beer companies leave because of the difficult conditions they face, other companies may not fill the void.

Like the beer companies, Indupalma, a Colombian palm oil company, also faced violence and extortion by guerrilla groups. The ongoing threat to Indupalma’s employees, products and operations required the company to make substantial investments in security. As the costs associated with conflict increased, the company began to consider bankruptcy. Rather than close down or pay a security “tax”, the company completely changed its organizational structure (Rettberg, 2004). Indupalma outsourced production to some of its former employees who had formed cooperatives. Indupalma then specialized in financing production, selling equipment and seeds to the cooperatives and then buying their output and selling it in global markets. The guerrillas were much less likely to target small farmers for extortion and the decentralized structure made the central office less of a target. All in all, Indupalma’s strategy was reportedly quite effective (Rettberg, 2004).

At times, managers may not be able to find an alternative to paying the guerrillas’ “tax”. In that case, the company should think seriously about whether to continue to operate in such locations. In the case of Colombia, US companies that paid “taxes” to guerrilla groups have faced heavy fines and sanctions by the Justice Department; some of these include the Drummond Coal Company and Chiquita Brand International. Chiquita was found guilty of paying bribes to terrorist organizations that killed thousands of people in Colombia; the same type of bribes demanded of (and paid by) the

beer companies. As a result of its actions in Colombia, the US Justice Department imposed a \$25m fine on Chiquita ([CBS News, 2011](#)).

We recognize that these cases are far more complex than presented here. A more in-depth discussion of these and other business-conflict interactions can be found elsewhere ([Miklian, 2017a, 2017b](#); [Miklian and Schouten, 2014](#); [Miklian and Hoelscher, 2017](#); [Miklian and Medina-Bickel, 2017](#)). Our main takeaway, however, is that a peacebuilding approach is not one that requires corporations to be arbitrators of peace at the expense of profit. Rather, it is instead a “thicker” way to conceptualize and weigh risk when working in the most challenging business regions of the world ([Miklian *et al.*, 2016](#)). We feel that such an approach is both more likely to be in the long-term interest of the firm and the local society where the firm operates.

Conclusion and future directions

Rethinking how businesses respond to complex global challenges requires a change in mindset. It is not surprising that to some, peacebuilding sounds like a radical approach to business. After all, the field of business strategy was heavily influenced by military strategy. The writings of Sun Tzu, a famous Chinese military strategist in the sixth century B.C., and Carl von Clausewitz, a Prussian general and military theorist, have heavily influenced how managers approach business decisions and formulate strategy ([Holmes, 2010](#); [McNeilly, 2011](#)).

For those who live in challenging environments, particularly those in countries with the greatest external risks, the notion of peacebuilding is not at all surprising or radical. The only way to reduce violent conflict risk and address complex challenges around the world is to mitigate risk at its source. Large portions of society have a self-interest in addressing these threats, even if the actual violence is somewhat distant. As an article in this issue demonstrates, while the direct effect of violence, unrest and crime may be localized, the negative effects often extend well beyond the affected area. These threats can create a negative halo effect that deters foreign direct investments (FDI) across large portions of a country ([Ramos and Ashby, 2017](#)). This only increases the value of peace for everyone in a violence stricken region of the world.

We see two important avenues for future research in particular. First, as our understanding of how business and society interact in conflict-affected or fragile areas of operation is relatively under-developed, managers must be willing to change their mindset on how to approach risk. Rather than adopting an exclusive focus on mitigating threats (risk aversion), we suggest that managers consider the positive (value-added) approaches that might simultaneously reduce risk and improve the overall conditions for business. Second, while researchers have identified strategies for promoting peace and stability ([Oetzel and Getz, 2012](#); [Miklian, 2017c](#)), there is still a great deal to learn about which strategies are the most effective.

Second, private sector engagement in support of the UN's sustainable development goals (SDGs) provides a natural but heretofore under-studied way to examine business actions for peace. Goal #16 (peace, justice and strong institutions) is of particular interest, as it directly encourages deeper involvement by businesses in conflict-affected states to help deliver a peace dividend, and the UN considers the private sector to be an essential partner in this agenda. This agenda is also a major shareholder concern as over US\$2tn in investments is already benchmarked to sustainable social investment, and another US\$20tn is directed to do the same by large pension funds. These figures are growing rapidly, driven by a new generation of investors that demand more socially responsible companies to invest in, incorporating around 20,000 companies that are formal signatories to peace and sustainable

development initiatives around the world. Corporate engagement in the SDGs constitutes a mind-bogglingly large undertaking, but we still know little about what actually works (or even what is actually happening) as the private sector increasingly works to build peace through sustainable development in fragile and conflict contexts.

It is important to note that managers do not need to be experts in peacebuilding to adopt the strategies and tactics we have discussed here. For those companies who are open to trying alternative approaches to risk management, there are many external organizations like NGOs that can serve as valuable partners and/or resources. These organizations often have unique skillsets and knowledge of local peace and conflict dynamics that can be invaluable for the business community. NGOs often have experience mitigating conflict and can provide the skills and capabilities needed by MNEs to reduce risk. In turn, MNEs can offer guidance to NGOs on political risk, corruption and other elements of “doing business” that can help NGOs navigate private sector environments where they may be seen as the enemy. The critical point is that peacebuilding is actionable. Moreover, there are numerous self-interested reasons that managers may choose to do so.

Many of the challenges in the world today cannot be addressed by one segment of society. The public sector is stretched thin, is increasingly decentralized and, in many countries, lacks the resources and capabilities to solve problems within a country. As stable, peaceful societies are highly desirable for business (e.g. businesses pay a premium to locate in countries like Singapore where the rule of law is strong and the necessary conditions for peace are present), managers have an interest in peacebuilding and, in many cases, the power to do it.

Notes

1. In a post-conflict context, peacebuilding has been defined as identifying and supporting structures which will tend to strengthen and solidify a more peaceful society to avoid a relapse into conflict (as defined in [Barnett et al., 2007](#)).
2. The authors thank Juan Pablo Medina-Bickel for his research assistance in this section.
3. In an off-the-record meeting, a former top executive of a major oil company related this arrangement that he brokered in Angola (2007).

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Corresponding author

Jennifer Oetzel can be contacted at: oetzelj@american.edu

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