CHAPTER 2: CORPORATE SOCIAL RESPONSIBILITY AND MNC DECISION-MAKING IN CONFLICT-PRONE COUNTRIES

> "Business provides the economic vehicle for the fundamental human right to development, for nations as well as individuals. The business sector is, in other words, essential to the development and protection of human rights for the 5 billion people on this globe. Without development, and without the involvement of the business sector, I believe fundamental human rights cannot be secured. Far from being in conflict, one is dependent upon the other. The business sector has a key role to play, but it must accept its role and perform it responsibly. With economic development must come environmental stewardship and social responsibility. This presents the business sector with new, complex and challenging situations. It finds itself having to deal in a practical way with human rights issues, not as a matter of choice, but of reality in this global environment." Peter Sutherland, Chairman, BP Amoco (1997, p. 1)

2.1 Corporate behaviour in risky states: Understanding corporate decision-making processes pertaining to social risk and responsibility

In determining whether MNCs can play an effective role in conflict prevention, it is essential to understand the factors that affect corporate behaviour in conflict zones. This requires an evaluation of the risk assessment methodologies that underlie corporate decisions about their investments in a conflict-prone country, and an analysis of the variables that influence corporate responses to conflict issues. Once establishing the general parameters of corporate decision-making processes in conflict zones, these are then examined in the context of the case study.

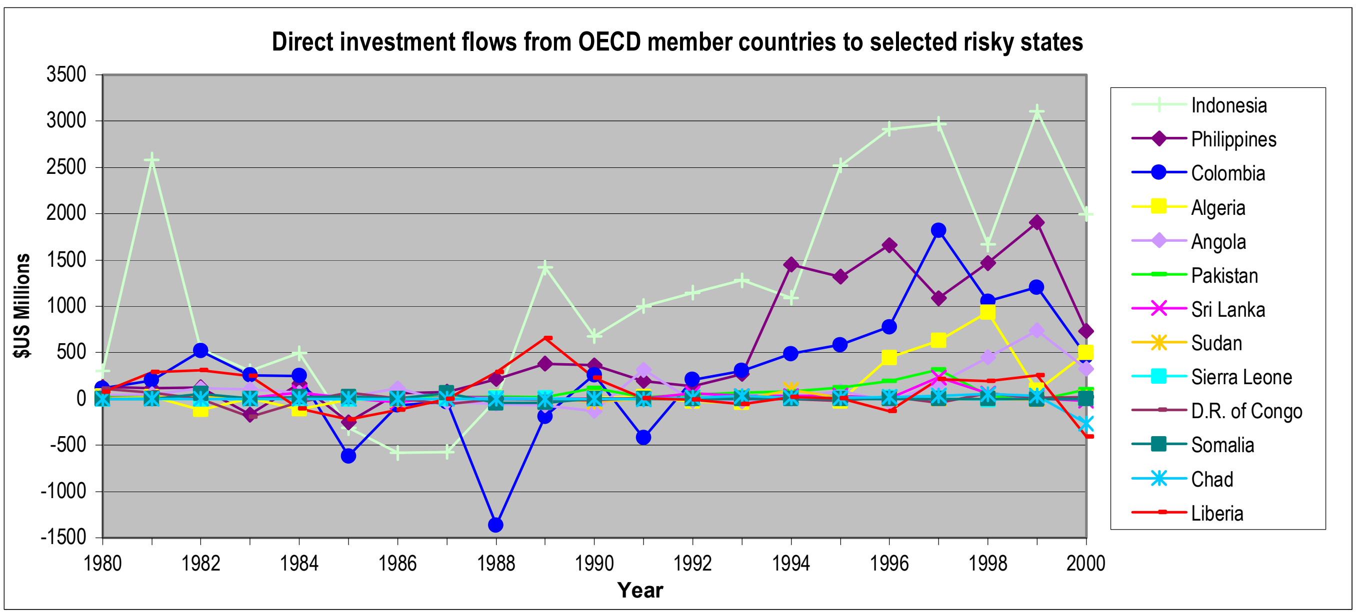
Globalization has enabled MNCs to expand into developing markets with greater ease, as there are now more incentives and fewer obstacles for companies to invest abroad (Haufler, 1997, p. 140). In particular, the privatization of state-owned assets resulting from the recent wave of economic liberalization throughout the developing world has proven to be a major attraction for foreign direct investors (Shwartz & Gibb, 1999, p. 5). Western-based companies also invest in developing countries in the hopes of realizing higher potential returns on their investments than would be possible in more stable, developed countries (Mehmet, 1999, pp. 26-27).[38] Meanwhile,

[38]According to most theories of economic growth, there is a higher return on investment in comparatively less developed countries. In addition, certain costs may be lower in conflict-prone countries where capital assets may be undervalued due to long-term risks, and there may be less market competition since fewer companies will have an interest in investing (Economist, 2000, pp. 85-88).

rapid advances in the telecommunications and transportation sectors, the integration of global financial services, and the easy availability of political risk insurance all facilitate MNC operations in the developing world.[39]

While there is a widespread assumption that MNCs and other direct investors avoid extremely risky states, such as those experiencing armed conflict, this is not always the case. As Figure 16 demonstrates, there are massive discrepancies in the ability of risky countries to attract FDI.

Figure 16



Source: (OECD, n.d.)

Some countries, such as Indonesia, the Philippines and Colombia, tend to receive high levels of direct investment despite experiencing armed conflict, while other conflict-prone countries, primarily in Africa, have been almost totally ignored by foreign investors (Solomon, 2001, p. 27). Given this

[39] Virginia Haufler (1997) makes the case that the globalization of trade and production could not have progressed so far without the availability of political risk insurance to guarantee protection of private sector investments in developing countries (p. 141).

enormous variability, it would be unwise to make simplistic generalizations about how MNC decision-makers react to conflict risks.

In an effort to isolate the primary factors that affect MNCs in conflict-prone countries, Jonathan Berman (2000) of Political & Economic Link Consulting (PELC) interviewed 25 managers overseeing MNC operations in countries undergoing armed conflict (p. 28). According to the results of these interviews, the investment and operational decisions of MNCs in conflict zones are influenced mainly by five risk factors: the geographic impact of the conflict, the severity of the conflict, the attitude and policies of the government and the opposition, the industrial sector of the MNC, and the investment structure established by the MNC (See Table 5).

Table 5: Factors affecting MNC decision-making in conflict-prone countries

INFLUENTIAL FACTORS	HOW THESE FACTORS AFFECT MNC INVESTMENT	INDICATORS THAT MEASURE THESE FACTORS
Geographic impact of conflict	- if the conflict is contained in a specific area of the country, companies are less concerned about the risks of investing, whereas uncontained violence poses a major hazard to MNC operations	- location of armed groups and conflict zones
Severity of conflict	- only MNCS with their own military capabilities will invest in a country experiencing territorial conflict (opposition groups effectively control the country) - MNCs widely tolerate risks posed by incursional conflict (government in control but armed opposition engages in frequent attacks) and by terroristic conflict (government in control but opposition groups engage in isolated acts of violence)	- number of deaths due to violent conflict, indicators that measure the rule of law and legitimacy of government, government expenditures on military
Attitude and policies of the government and opposition	- MNCs are sensitive to governments and will invest if they have confidence in the business-friendly regulatory environment, receive close communication of policies, and are supported by government actions (including traditional economic incentives as well as military activities) - MNCs also pay attention to the ideology of opposition groups (some ideologies are more threatening to the private sector), and monitor opposition attacks on specific infrastructure (in particular, MNC operations will be significantly affected by attacks that disrupt travel, shipping, telecommunications, utilities, or the availability of essential inputs, such as labour)	- tariff structures, business regulations, labour laws, union activities, level of corruption - power outages, telecommunications disruptions, worker's strikes, ideological background of opposition groups
Sector of industry	- MNCs are less vulnerable to conflict if they produce essential products for the domestic economy or if they are able to export their products without any major disturbances - MNCs that rely on stable technology are more at risk of having their assets expropriated if conflict should result in government/regime transfer than are companies that rely on technology that constantly evolves - MNCs may overlook conflict risk if the supply potential of inputs (especially natural resources) is especially significant or if the domestic market is critical to the MNCs' larger operations	- size of market, availability of natural resources, intellectual property rights
Investment structure	- if MNCs are able to structure their investments in a way that mitigates the risk of conflict losses, they may not be averse to investing in conflict-prone countries - a common strategy is "venture progression" whereby MNCs move from lower risk investments (such as license agreements, contract manufacturing) to higher risk investments (such as post-production assembly, joint ventures, small wholly-owned investments) - another risk mitigation tool is political risk insurance (export credit agencies can provide these services at a subsidized cost)	- willingness of political risk insurers to cover MNC insurance policies in the host country, flexibility of laws pertaining to foreign investment

Adapted from: (Berman, 2000, pp. 28-32)

While the factors identified in Table 5 suggest that it would be possible for any company to operate in a conflict-prone state, if the conditions were acceptable to corporate decision-makers, the reality is that most MNCs in sectors such as tourism, manufacturing and sourcing, and marketing and/or distribution of consumer goods tend to withdraw if conflict escalates (Mitchell, 1998, p. 241). This is because their operations are extremely vulnerable to the reputational and operational risks that are associated with armed conflict (Mack, 2001, p. 2).

The primary incentive for an MNC to accommodate the related risks involved in investing and operating in an unstable or violent country has typically been the existence of natural resource-based assets for extractive purposes (Economist, 2000, p. 85).[40] The rationale for this is clear, as a resource may not be available in other more stable countries, making the potential risks more tolerable. Since resource-based companies in developing countries generally produce for export, their investments are not likely to be affected by the host country's long-term political or economic stability, so long as they are able to carry out their operations with few major disturbances (Mack, 2001, p. 3). Other types of MNCs that may be attracted to conflict-prone countries or regions include companies which are more directly engaged in war economies or commercial aspects of war, such as firms involved in the arms industry, insurance and financial services, or private security and expert consultancy (Nelson, 2000, p. 58).

The PELC study provides an indication of the major considerations affecting corporate decision-making but it does not thoroughly assess how a company operating in a conflict zone might analyse risk or make decisions about whether or not to invest. Although, it is difficult to make

[40] In many developing countries, this sector tends to produce economic dependence on primary resource exports, which Paul Collier (2001) identifies as a major risk indicator for civil conflicts (p. 3).

generalizations about the risk assessment processes of MNCs, the main classifications of risk that are typically relevant to corporate decision-makers are outlined in Table 6.

Table 6: Main risk classifications used by the private sector

Type of Risk	Definition	How it is commonly identified and measured
Commercial risk	- market-based risks that compromise the commercial viability of investment by interrupting revenue streams - level of risk is highly dependent on life-span of project and demand for service/good produced	- policy changes that affect market demand (including deregulation, physical barriers to market - i.e. insufficient infrastructure, market liberalization, or changes in import/export quotas, tariffs, users fees)
Economic risk	- risks related to the macroeconomic stability of the host and home countries of MNCs	- exchange rate devaluations, interest rate increases, inflation, foreign exchange shortages, restrictions on profit repatriation or currency convertibility
Environmental risk	- technical risks related to the environment and natural resources - risks vary considerably depending on the nature and location of the investment activity	- indicators of environmental risk are highly context-specific and cannot easily be generalized
***Force majeure* risk**	- unpredictable and exceptional events outside the control of main parties to an investment	- natural disasters, sabotage, epidemic, war, riots, or revolution (such events must be catastrophic, unpredicted, and not directly related to activities undertaken by the investor)
Management risk	- risks stemming from poor project planning, development and management	- indicators of management risk are highly context-specific and cannot easily be generalized
Political risk	- government actions and/or inactions that impact private sector activities (including nationalization and/or expropriation)	- change in the government or regime, change in policies toward private sector and foreign investors, political instability and/or conflict
Regulatory or legal risk	-risks related to specific laws, regulations, contracts and more broadly related to political and legal culture	- indicators related to the judicial system, dispute resolution mechanisms, regulatory environment, legislative framework, property rights
Social risk	- risks that exist when there is a social unrest (often considered a sub-sector of political risk)	- indicators include strikes, riots, civil disobedience, religious turmoil, ethnic conflict, war, and terrorism

Adapted from: (Sharman, 1997, pp. 46-64)

While this comprehensive approach to business risk assessment provides MNCs with detailed information about potential hazards that could affect the profitability of an investment, it is perceived to be inadequate in enabling MNCs to make informed decisions with a view to conflict prevention (Champain, 2001, p. 160).

The underlying problem is that MNC decision-makers primarily base their decision-making criteria on risk factors that could have an impact on corporate activities, rather than the impact of corporate activities on conflict risk factors.[41] The reasons for this are self-evident, since "the institutional or corporate role of the risk analyst is to identify in advance potential and existing risk situations, primarily political in nature or origin as they relate to a country's creditworthiness and/or investment climate in order to minimize the risk of financial loss for his employer" (Boyle, 1983, p. 28). From the point of view of conflict prevention, this risk assessment approach is entirely backwards.

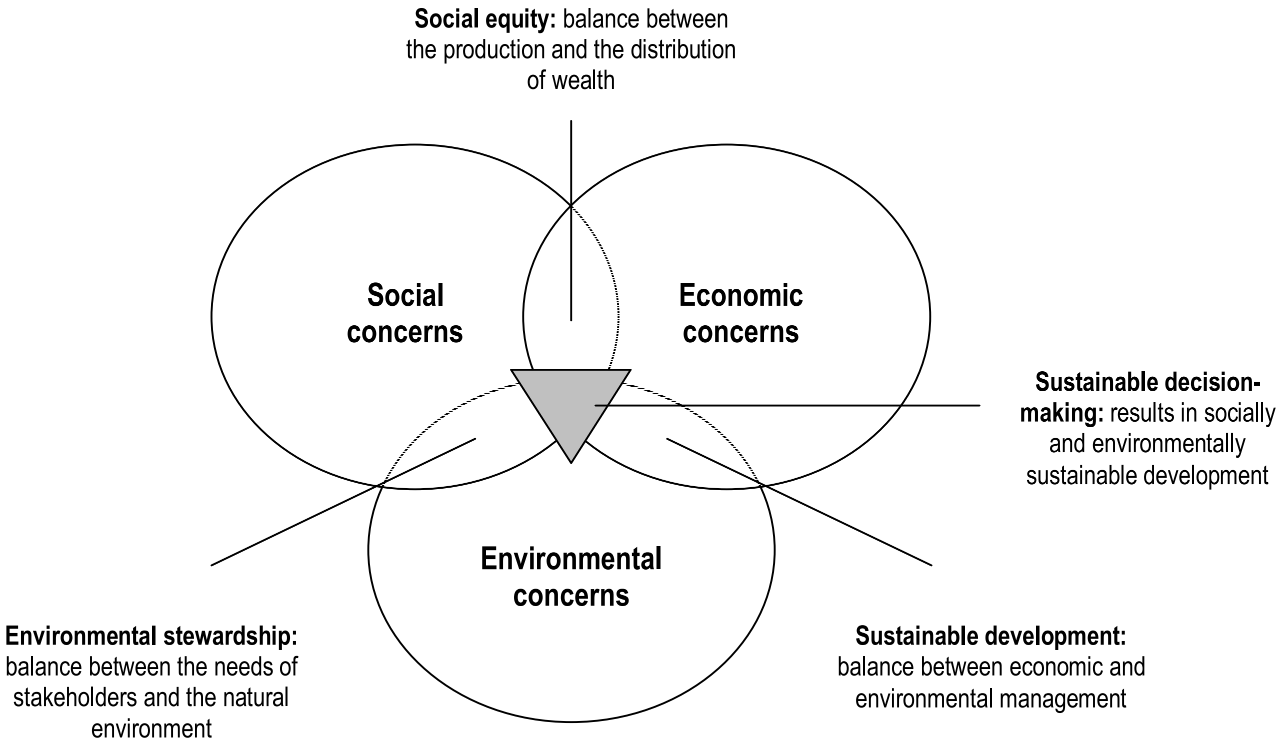
Rather, it would be more relevant to determine how MNC operations are likely to affect political, social, environmental and economic factors that could either exacerbate or diminish the risk of an outbreak of armed conflict (Nelson, 2000, p. 31). This would entail developing a risk assessment methodology that combines business risk analysis with an assessment of context-specific conflict impacts, similar to an environmental or social impact assessment.[42] Although many MNCs involved in large-scale extractive operations have developed extremely comprehensive methodologies for undertaking stakeholder analysis and impact assessments, in general there are few guidelines to enable companies to monitor and mitigate their impact on armed conflict (Champain, 2000, p. 160). Therefore, it is not surprising when companies are accused of bad decision-making leading to an unintentional exacerbation of violence (Mack, 2001, p. 3).

Efforts to encourage MNCs to put in place policies and practices that would help to minimize sources of conflict and contribute to peacebuilding emphasize the need to promote more proactive decision-making processes with respect to corporate responsibility issues. As Peter Sutherland (1997), Chairman of BP Amoco, stated at an Amnesty International conference, "The real question is not whether companies have influence, but whether they use what influence they

[41] It is important to note that companies operating in conflict zones are constantly evaluating risks to protect personnel, company assets and corporate reputation (Nelson, 2000, p. 31).
[42] This topic is discussed in further detail in Chapter 3.1.

have responsibly" (p. 2). Exercising corporate influence in a responsible way requires companies to promote sustainable corporate decision-making with respect to environmental, economic, and social concerns (See Figure 17).

Figure 17: Elements of sustainable decision-making



Source: (McPhail, 1998, p. 4)

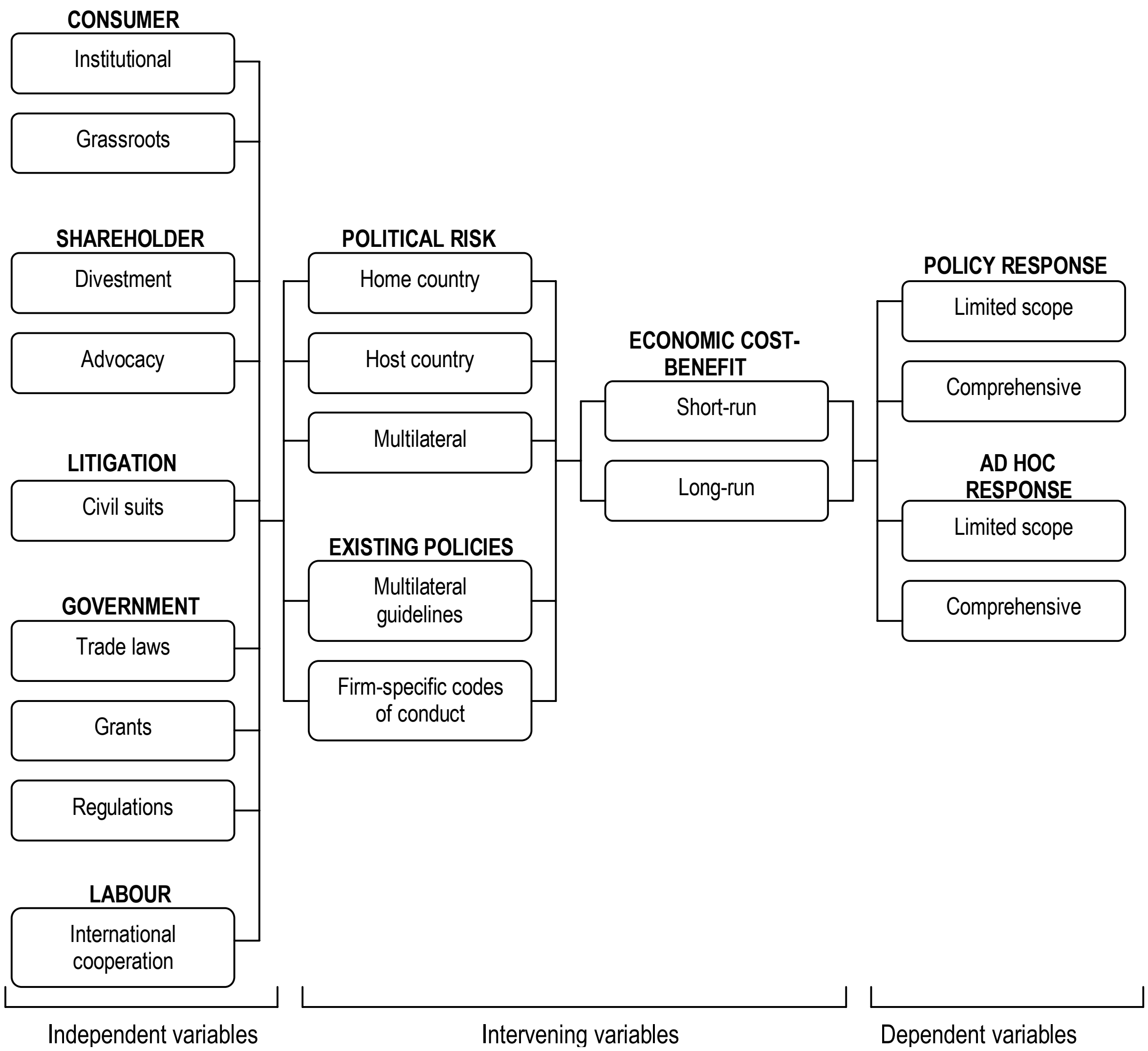
This concept is important to consider when examining how MNC decision-makers determine their role and responsibilities in conflict zones. Understanding the factors that could motivate companies to adhere to sustainable decision-making practices will enable governments and NGOs to promote greater MNC cooperation in mainstreaming corporate conflict prevention.

However, making sense of corporate decision-making can be difficult, as Dr. Robert Davies (1998) of the Prince of Wales Business Leaders Forum noted during a British Parliamentary Committee hearing focusing on conflict and the private sector:

> Response by business to conflict and associated human rights abuses is highly complex, not least when operating in countries where the response of governments and the international community is ambiguous towards sources of conflict, or where business operations are legally sanctioned yet there are operational challenges and public disapproval. (¶ 131)

In explaining how companies manage these ambiguities and complexities, Craig Forcese's model of corporate decision-making pertaining to human rights issues provides an effective framework of analysis that can be adapted to the context of corporate behaviour in conflict zones. According to Forcese's model (See Figure 18), a company's response to corporate social responsibility (CSR) issues arising from armed conflict and violence is likely to be determined by the following variables:

Figure 18: Model of firm decision-making on CSR issues



Source: (Forcese 1997b, p. 76)

As demonstrated in the model, it is argued that there are five independent variables that affect MNC decision-making with respect to CSR issues: consumers, shareholders, litigation, government policies, and labour activists (Forcese, 1997b, p. 76). The first variable, consumers, refers to both institutional and individual, or grassroots, consumers. These consumers may choose to purchase goods and services from companies on the basis of their track record as represented in the media. According to Forcese (1997b), the resultant consumer pressure to improve policies and practices surrounding human rights has a "direct economic influence on firm decision-making" (p. 76).

The second main influence affecting MNC decision-making on CSR issues relates to the ownership structure of the company. As most MNCs are publicly traded, shareholders can play a central role in corporate decision-making.[43] Shareholders may attempt to exercise their control over decisions in two ways: 1) by choosing to invest or divest shares on the basis of the record of the company and 2) by seeking to force a company to engage in specific initiatives using various legal tools that enable shareholder advocacy (Forcese, 1997b, p. 77).[44]

Third, individuals or groups of litigants that launch civil suits against companies may have a direct and indirect effect on corporate decision-making with respect to CSR (Forcese, 1997b, p. 77). Although the direct impact of litigation is in part determined by the willingness of courts to find in favour of litigants, the costs associated with defending a civil suit may encourage companies to

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[43] However, in Canada, the Canada Business Corporations Act allows management to reject shareholder proposals "where it appears that the proposal is being submitted for the purposes of promoting general economic, political, racial, religious, social, or similar causes" (Alderson, 2000, p. 14). This limits shareholder advocacy in terms of social responsibility issues.

[44] Examples of shareholder pressure tactics are extremely common, as protesters often target annual shareholders' meetings of companies implicated in social or environmental scandals. For example, in April 2002, at the meeting of BP Amoco shareholders in London, the Co-Chairman Peter Sutherland had to deflect questions about alleged human rights abuses in Colombia, while shareholders pushed through a proposal calling on the company to promote more transparency in its environmental policies against the wishes of the board of directors (Buchan, 2002).

change their practices, "to reduce future exposure to liability and mitigate the impact this liability might have on the firm's bottom line and its share value" (Forcese, 1997b, p. 77) Therefore, litigation may promote adherence to responsible policies and practices among corporate decision-makers.[45]

Fourth, the home and host governments of MNCs have a number of means by which they can influence corporate decisions. For example, through trade policy, a home government can condition access to its markets so as to dissuade companies from operating in a country with an unacceptable record of human rights and governance (Forcese, 1997b, p. 77). Or, home governments can restrict access to grants, subsidies, tax credits, loans, investment insurance, and other types of industrial assistance programs on the basis of rigorous conditionalities (Alderson, 2000, pp. 14-15). In addition, the direct regulation of MNCs' operations abroad can have a major influence on corporate behaviour (Forcese, 1997b, p. 77). Finally, host governments may introduce regulations that affect MNCs' policies and practices pertaining to CSR and human rights.[46]

The fifth variable to consider is the role of the MNC's employees and labour unions in influencing firm practices. This factor is especially important when there are legally binding agreements that cover worker rights violations, labour unrest, or issues pertaining to the broader social and environmental impacts of an MNC's operations (Forcese, 1997b, p. 77). Frequently,

[45] For example, there are currently two lawsuits filed against OCENSA and ODC, both of which are subsidiaries of BP Amoco in Colombia, for damages resulting from the environmental, social, and conflict-related impacts of the pipelines (Higginbottom, 2001, p. 3).

[46] Generally the governments of conflict-prone countries may lack either the capacity or desire to promote stricter adherence to regulations, although in the case of Colombia, the government has made efforts to improve the regulation of the social and environmental impacts of businesses and to strengthen legal entitlements to public participation in decision-making by passing Law 99 in 1993 (Davy et al., 1999, pp. 21-22).

international cooperation between employees in the home and host country of an MNC affect the eventual policies pursued by the company.

According to the model, the independent variables, which are triggered by a corporate human rights crisis, represent external stressors that affect business profitability, which in turn affect the company's decision-making with respect to corporate social responsibility issues. "The response of the firm to the pressures exerted by independent variables will depend on how the business decision-making process is geared to react to external variables" (Forcese, 1997b, p. 78). Forcese argues that the nature and strength of the firm's response to the independent variables are determined by three intervening variables: political risk, existing policies, and economic cost-benefit (p. 78).

The first intervening variable, political risk, refers to "the firm's understanding of the political repercussions likely to flow from its response to the human rights issue brought into play by the independent variables" (Forcese, 1997b, p. 78). This can include repercussions at the home country, host country, and multilateral level, resulting from a company's action or inaction:

> An example of political risk stemming from inaction at the host country level might include political upheaval and repression-fuelled violence. Conversely, political risk generated by action in the host country might involve a negative host government response to the firm's promotion of, or adherence to, human rights norms. (p. 78)

Some of the risks a company might face from its home country for not improving its practices could include: unilateral sanctions, freezing of assets, litigation, or other penalties for operating in the host country. There could also be multilateral responses from organizations such as the World Trade Organization (WTO) or the International Labour Organization (ILO) (Forcese, 1997b, p. 79).

In addition, the existing policies of an MNC are likely to affect corporate responses to the independent variables. In particular, policies pertaining to human rights, community relations, labour conditions, social responsibility, and environmental sustainability are often set out in corporate codes of conduct (Alderson, 2000, p. 13). These codes typically represent voluntary guidelines that are either firm-specific, or are supported by a broad coalition of companies, such as the UN Global Compact (Jenkins, 2001, p. iv).[47] While there are few compliance mechanisms to ensure that companies actually abide by guidelines, the existence of these codes certainly influences corporate decision-makers accountable for implementing internal policies (Jenkins, 2001, p. iv).

Once a company has evaluated the nature of the human rights issue and the relevant external stressors, taking into account political risk and its own internal guidelines, Forcese (1997b) argues that the decision-makers will factor these considerations into an economic cost-benefit analysis, which has an enormous influence in determining the decision-making outcome (p. 78). A profit-maximizing company would examine both short-term and long-term costs and benefits when designing a response to an issue that has triggered one or many of the independent variables, and choose the most cost effective response (Forcese, 1997b, p. 79). Depending on the specific situation, there could be a number of potential responses, but the model looks at a simple scenario where there are only two options: action or inaction (See Table 7).

Table 7: Costs and benefits of corporate action or inaction in response to a social crisis

	Short-term		**Long-term**	
	Cost	**Benefit**	**Cost**	**Benefit**
Action	- increased production costs	- reduced pressure from independent variables	- reduced competitiveness because of increased production costs	- increased competitiveness because of reduced pressure from independent variables
Inaction	- increased pressure from independent variables	- no increase in production costs[48]	- reduced competitiveness because of increased pressure from independent variables	- increased competitiveness because there is no increase in production costs

Source: (Forcese, 1997b, p. 80)

[47] For a comparison of different corporate accountability frameworks see Appendix 2.
[48] In fact, there may be an increase in production costs if inaction leads to worsening conflict, which then creates new security and insurance costs for a company, or forces them to halt operations.

Although Table 7 does not account for all the specific considerations that are factored into a corporate response, it at least indicates the basic criteria that are relevant to the decision-making process.

According to the model, the dependent variable, which represents the final response of the MNC, will depend on the magnitude of the independent variables, mediated by the company's internal analysis of the three intervening variables (Forcese, 1997b, pp. 80-81). This response can take place in an ad hoc fashion if a company decides to remedy a specific issue but not otherwise change its practices, or the company can introduce new policies as part of an approach that affects all its present and future operations (Forcese, 1997b, p. 80). In addition, the company's response may be limited to issues that are strictly within its direct control or it may address more comprehensive issues that are indirectly linked to its operations (Forcese, 1997b, p. 81).

Although this model is designed to explain corporate decision-making with respect to human rights, it provides a useful framework for understanding how MNCs react to accusations that its policies and practices have exacerbated violent conflict. While the concept of corporate social responsibility has changed the way the public perceives the role of MNCs in developing countries, according to the model, the decision-making processes of a company are more likely to be driven by practical rather than altruistic factors. Therefore, those seeking to encourage MNCs to advance responsible corporate behaviour in conflict zones will have to find ways to demonstrate to corporate decision-makers that it is in the long-term self-interest of the company to become engaged in conflict prevention (Sherman, 2001, p. 7). With this in mind, the following section examines the evolution of BP Amoco's social policies and practices in Colombia, and assesses how and why the company has responded to the situation in Casanare in the manner it has.[49]

2.2 BPXC in Casanare: Factoring social concerns into corporate decision-making

Although it would be near impossible to investigate the specific risk assessment procedures upon which BP Amoco based its original decision to invest in Colombia, the company policy on risk states:

> Country risk assessments are undertaken, usually prior to major new investments or where the social or political environment gives cause for concern. Although these assessments usually involve input from external sources the results necessarily remain confidential to the business. Social impact assessments are an increasingly regular feature of the way we map the likely impact of major developments and review progress with stakeholders. Social impact assessments are based on thorough consultation but participants are given an assurance that what they say will be treated in confidence, so we do not normally publish the reports in full. […] The magnitude of any risk related to an environmental or social impact is assessed against criteria based on our business policies and performance expectations. In addition, because our company works in many diverse locations across the world, the risks often need to be assessed and mitigated at different levels, whether local, national or international. (BP Amoco, n.d.)[50]

While BP Amoco evidently decided that the benefits of operating in Colombia outweigh the costs resulting from the conflict risks,[51] the on-going violence has deterred other foreign oil companies from investing in Colombia. Many oil MNCs are increasingly wary of financing any explorations until the political situation stabilizes (Klare, 2001, pp. 20-21). It is estimated that nearly $2 billion in oil investment was "deferred" in the last decade due to the activities of the FARC and ELN (Occidental, n.d.). In fact, by 2005 Colombia will likely be a net importer of oil, even though it is believed to have significant reserves (Occidental, n.d.).

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[49] Most of the information regarding BPXC's social policies and practices has been gathered either from corporate documents on the company's website or from a major evaluation of the social impacts of BPXC's investment undertaken by the World Bank.

[50] BP Amoco claims to have pioneered the use of social impact assessment in relation to the likely impact of business operations on a region or country as a whole. This level of impact assessment addresses the more indirect effects of MNC investment identified in Chapter 1.1, such as when a project generates significant government revenues and leads to economic, environmental, political and social impacts beyond those related to construction or operational activity (BP Amoco, n.d.).

[51] It has been estimated that approximately 4-6% of oil industry costs in Colombia are related to security (Champain, 2001, p. 155).

The current slowdown in new oil investment in Colombia can be explained by looking at the five risk factors that Jonathan Berman found were important to MNC decision-makers. On the basis of his framework, there are significant conflict-related challenges confronting oil and gas companies interested in exploiting Colombia's oil reserves (See Table 8):

Table 8: Risks and challenges affecting the oil sector in Colombia

RISK FACTOR	SPECIFIC EXAMPLES PERTAINING TO COLOMBIA
Geographic impact of conflict	- the main regions of conflict overlap with the main regions of oil activity, largely because foreign oil companies are a favourite target of the guerrilla groups and because oil exploration is occurring in the more marginal regions of the country where the guerrilla presence is strongest
Severity of conflict	- over 40% of the country is controlled by illegal armed groups and kidnapping and murder rates are at alarming levels - the failure of peace negotiations and the subsequent escalation of the conflict are of major concern to foreign investors - the widespread violence means that companies operating in the conflict-prone regions of the country require their own security forces in addition to the military and police support offered by the government
Attitude and policies of the government and opposition towards the private sector	- Colombia's "*apertura*" established a business-friendly regulatory environment while the government's armed forces provide MNCs with security - the FARC and ELN adhere to a Marxist ideology and oppose MNC investment - business operating costs are higher due to guerrilla "taxation" - guerrilla groups frequently attack the country's transportation links, telecommunications structures, and electrical and water utilities - the kidnapping of foreign executives and local employees is a major risk - major human rights violations have been committed against labour activists and trade unionists by the AUC
Sector of industry	- MNCs in the oil industry are extremely vulnerable to conflict but face little risk of having their assets expropriated unless the guerrillas defeat the government, in which case they would nationalize oil production - the oil sector is frequently targeted by guerrilla groups, who have attacked the country's main oil pipelines on average more than once a week for the last ten years - attacks on oil-related infrastructure have risen steadily: Occidental's Caño Limón oil pipeline was ruptured 443 times between 1986 and 2000, with an additional 312 attacks causing major dents – approximately 50% of the ruptures occurred in the last 4 years
Investment structure	- major oil investors form association contracts with the state oil company, Ecopetrol, which helps to spread out the risks involved in operating in Colombia - political risk insurance is critical to oil operations: for example, Occidental had to claim *force majeure* losses for five months in 2001 and again in January of 2002

Therefore, any company operating in Colombia has to make use of suitable risk analysis and risk management strategies to protect personnel and assets. Increasingly, this has required oil MNCs to pay close attention to managing social issues in an effort to minimize the impact of their activities on the civil conflict.

Since 1987, when BPXC first established its presence in Casanare, its approach to managing social risk has evolved considerably (Davy et al., 1999, p. 21). Over time, the objectives and implementation of BPXC's social programs have shifted away from a reactive approach focused on mitigating the direct socio-economic impacts of exploration towards a more proactive approach that addresses local and regional development needs (Davy et al., 1999, p. 27). While the original objective of BPXC's social investments was to build community support for the company's activities to facilitate its operations, now BPXC seeks to form partnerships with other actors to manage the expectations of local communities and to promote strategic regional development and peacebuilding. It is argued that BPXC changed its approach only as a result of external pressures that forced the company to become more actively involved in managing the social impacts related to its operations. By examining the policy shifts that steered BPXC towards its current partnership strategy, it is possible to understand the factors that could motivate MNCs to accept a greater level of social responsibility.

Before 1993, BPXC had no explicit social policy regarding its operations (Davy et al., 1999, p. 25). During the exploration phase of the oil project, BPXC limited its interactions with local communities as much as possible, since it could not recoup the costs of any social investments unless the project turned out to be viable. According to the World Bank's evaluation of BPXC's early social interventions, "The tendency in the initial stages of the project was for BPXC and its contractors to support targeted investments to obtain access, which inevitably led to inequities […] this targeted approach was a source of disaffection and conflict, even if it served the short-term interests of the company" (Davy et al., 1999, p. 32). The company's social spending went mostly to infrastructure projects, including investment in sanitation facilities, landfill and waste management, and road upgrading (Davy et al., 1999, p. 39).

This extremely localized approach to social interventions did not address the need to build capacity or to manage conflict issues and in fact contributed to new sources of conflict between different municipalities and between the national government and the local population. Not surprisingly, there was considerable resentment among those who did not benefit from BPXC's efforts to "buy favours" (Davy et al., 1999, p. 28). The company has since acknowledged that it learned from early mistakes it made in its initial attempts to monitor and mitigate social and environmental impacts associated with the oil exploration (Davy et al., 1999, p. 36).[52]

Upon moving from exploration to construction in 1993, when the Cusiana oil field was declared commercial, the company realized that it would have to address the social issues related to oil production in a more strategic manner.[53] BPXC adopted a new community affairs policy to be implemented by a team of three field-based specialists (Davy et al., 1999, p. 25). The programs supported by the policy "aimed to provide greater investment in the community, increased involvement with local and national governments on such issues as planning, continual dialogue on proposed activities, managing local expectations, and developing strong relationships with stakeholders based on mutual benefit" (Davy et al., p. 25).

At the same time, BPXC hoped to strengthen the Community Affairs division and give it more autonomy from the other operations of the company to ensure that it would have the ability to implement more ambitious social programs. In addition, BPXC financed a comprehensive pre-diagnosis of the potential impacts of the oil investment on the region to help it better identify possible strategies to mitigate social impacts, reduce sources of conflict and contribute to local development (Davy et al., 1999, p. 37). These changes enabled the company to improve its ability to manage social risks and conflict impacts.

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[52] In fact, the company was fined $US 276,000 in 1994 for having damaged natural resources and failed to comply with existing regulations, although it is important to note that the infractions occurred before the company improved its environmental policies in 1993 (Davy et al., 1999, p. 37).

[53] BPXC considers its social policies and practices to be vital in achieving a "license to operate" which enhances the feasibility of their operations in the region, given the context of widespread political violence (Davy et al., 1999, p. 31).

In light of Forcese's model, it is possible to determine why the company may have chosen to focus on social issues at that particular moment. In 1993, the Colombian government passed Law 99, which created a new Ministry of Environment that required oil projects to undergo rigorous social and environmental impact assessments (Moser, 2001, p. 299). It can be assumed that government legislation was the most important of the independent variables affecting the company's decision to improve its policies pertaining to its social and environmental practices. However, BPXC's policy response had limited scope, as it defined the project's area of influence as "the immediate areas of oil exploration or production" (Davy et al., 1999, p. 25). This suggests a continued reluctance on the part of the company to accept greater responsibility for managing the development expectations of the region. However, BPXC did begin to focus its social investments towards projects to promote transparency and institutional strengthening, in the hopes of improving the capacity of the municipal and departmental governments to manage the influx of money related to the oil royalties, thereby reducing a potential source of conflict.[54]

By 1996, BP was facing a number of global challenges related to its operations. The company was widely perceived to be a laggard in dealing with the social and environmental aspects of its operations (Rienstra, 2001, pp. 23-24). In particular, there was an onslaught of articles and reports in the British media about the broader impacts of BP's investments on the conflict in Colombia. In 1997, two high-profile television documentaries criticized BP's security policies and practices in Colombia, prompting inquiries in both the British and European Union parliaments (Davy et al., 1999, p. 38). Of the more severe allegations confronting BPXC were accusations that the company was facilitating the harassment of individuals and community

[54] According to the social and environmental pre-diagnosis which BPXC commissioned from the National University of Colombia, the management of oil royalties represents the key to whether or not the oil investment will eventually have a positive or negative influence on the conflict in the region (Davy et al., 1999, p. 37).

organizations opposed to the regional oil development and managing its security operations with little regard for potential human rights violations (Mitchell, 1998, pp. 247-248).

These allegations put the company on the defensive, as BP requested that the Colombian judicial authorities, the *Fiscalia General*, investigate any potential failings in its human rights policies and practices (Mitchell, 1998, pp. 247-248). The company was exonerated of the charges but BPXC suffered serious damage to its corporate reputation both locally and internationally as a result (Rienstra, 2001, pp. 23-24). To make matters worse, on October 18, 1998, over 70 civilians were killed when the ELN blew up a section of the OCENSA pipeline, which is partially owned and operated by one of BP's subsidiaries (BP Amoco, 2000, p. 3).

According to Forcese's model, these events can be considered an external stressor, which triggered a public backlash that led to series of policy responses being implemented between 1996 and 1998. In 1996, BPXC published a new community affairs manual, reflecting the overall objectives of BP's global community affairs policy (Davy et al., 1999, p. 26). This manual formalized a more comprehensive strategy for addressing direct and indirect social impacts related to the company's operations, taking into account the context of escalating conflict. BPXC expanded the scope of its social investments by defining three levels of activity targeted towards: the areas immediately affected by the oil development, the local communities near the operations, and regional initiatives within the department (Davy et al., 1999, p. 27). Within each these levels, BPXC developed programs to address four key issues: human development, institutional strengthening, economic development, and infrastructure provision (Davy et al., 1999, p. 27).

Sample interventions included projects targeting health, housing, reforestation, productive agriculture, microenterprise initiatives and the construction of recreational facilities (Davy et al., 1999, p. 26). These initiatives were supported by institutional programs focusing on development planning, technical and environmental education, capacity-building and conflict resolution (Davy et al., 1999, p. 26). Mechanisms to encourage local participation in the allocation of the company's social investments were strengthened and the company began to elaborate an approach based on partnership with civil society and government. An underlying objective of this strategy was to neutralize tensions between local communities and the company, and to reduce sources of conflict resulting from the unequal distribution of benefits related to oil royalties.

In 1997, restructuring within BPXC led to the assignment of a BP Associate President to manage community affairs (Davy et al., 1999, p. 28). BPXC also decided to establish public relations offices in the departmental capital, Yopal, and in Tauramena and Aguazul, to ensure better accessibility to the local population. Sixteen people were assigned to the community affairs team to work on social issues related to the oil fields while an additional fourteen people were hired to manage the social impacts of the OCENSA pipeline project (Davy et al., 1999, p. 28). This helped to create a higher profile for the division and to generate greater awareness of the social impacts related to the company's operations. The main focus of the community affairs team was to design and implement a new sustainable development program, outlined in a report titled, *Casanare 2000: A vision for the future*.[55] By this point, the company had begun to recognize the importance of dealing explicitly with conflict issues and began a process of dialogue with international NGOs to put in place internal corporate policies to minimize its impact on the conflict, as BP sought to repair damage to its own reputation (Frankental & House, 2000, p. 112).

While these changes indicated a marked improvement over prior policies and practices, according to an oil executive in Colombia who was interviewed for a 1998 survey on corporate

[55] The actual objectives and outcomes of this development strategy are examined in Chapter 3.2.

social responsibility within oil MNCs, "[…] community relations is usually seen as something undertaken by women on maternity leave" (cited in Moser, 2001, p. 299). Given the high public profile of BPXC's activities in Colombia, and the need for greater accountability to ensure that the company's social investments and community relations were meeting expected targets, this type of attitude remained a major concern to BP as the company underwent further restructuring in 1998 following the merger between BP and Amoco (BP Amoco, 2000, p. 12).

One of the major changes resulting from an internal review of social policies was the adoption of a set of global policy commitments based on a belief that "the company's activities should generate economic benefits and opportunities and that its conduct should be a source of positive influence" (Frankental & House, 2000, p. 112). BP Amoco identified conflict prevention as an important component of its community relations agenda. In addition, the company established an Ethical Conduct Policy based on the principles of the ILO's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (See Appendix 2) (Frankental & House, 2000, p. 112). The implementation of this comprehensive global policy was supported by detailed frameworks to help employees resolve dilemmas surrounding ethical decision-making especially in regions undergoing armed conflict (Frankental & House, 2000, p. 112).

Within Colombia, BPXC decided to devolve decision-making over community affairs issues to field-based operations managers supported by a smaller number of community affairs personnel. At the same time, the company hoped to improve accountability in the mitigation of social impacts by making managerial salaries dependent on social performance indicators (Davy et al., 1999, p. 27). This was part of an attempt to make the issues related to community affairs and social performance a mainstream component of corporate decision-making (BP Amoco, 2000, p. 12). However, it seems likely that an underlying motivation was the company's need to implement cost-cutting measures. Although BP Amoco's stated objective was to integrate social risk management into the daily operations of the company, this change was perceived by the local population within Casanare as further evidence of BPXC's "siege mentality" as the company reacted to the worsening security situation and growing level of community distrust (Davy et al., 1999, p. 35-36). It did not help that the number of community affairs personnel was reduced to seven people, while the offices in Yopal, Tauramena and Aguazul were relocated to the company's main operating facilities behind razor-wired fences (Davy et al., 1999, p. 35-36).

This remains a point of concern pertaining to BPXC's current management of its social impacts and community relations. Although it is difficult to find any information about how this restructuring has affected the ability of BPXC to manage community relations and social investments, it is likely more difficult for the local residents to express their interests and concerns to BPXC. The reduction of qualified personnel able to deal with social issues related to development and conflict may signal that the company is attempting to retreat from its responsibility to manage the broader social impacts of its operations (Davy et al., 1999, p. 35). This is an issue that will require further analysis to determine whether or not BPXC can be an effective and responsive partner in promoting development and conflict prevention if it does not have a strong organization through which to promote positive interactions with the local community.

More recently, BP Amoco began another restructuring process in 2001, which has resulted in on-going changes to the company's global policies pertaining to social investments (BP Amoco, n.d.). Currently, the company argues that "Effective social investment hinges on our ability to proactively manage the interactive impact of our operations on society – mitigating the potential negative impact and extending the positive impact wherever possible" (BP Amoco, n.d.). Addressing these issues will be ever more crucial to the company's operations, as it is currently interested in projects in other conflict-prone regions including natural gas development in Irian Jaya, Indonesia, and pipeline projects in Azerbaijan, Georgia and Turkey (BP Amoco, n.d.). If it is to avoid the costly mistakes it made in Colombia, BP Amoco will have to adopt a more strategic and proactive approach to managing social issues in the initial stages of the investment, rather than responding in a reactive manner, as described by Forcese's decision-making model.

In the case of Casanare, BPXC was extremely slow to recognize its responsibility to manage and mitigate negative social impacts, which in part explains why violent conflict in Casanare has worsened considerably over the past decade (Davy et al., 1999, p. 33). Although the neighbouring department of Arauca had already undergone a similar process of escalating conflict resulting from oil investment, and despite the fact that BPXC financed a pre-diagnosis that identified several expected impacts and challenges, BPXC did not initiate a comprehensive response to these issues until it was confronting negative media coverage of the escalating conflict in Casanare (Davy et al., 1999, p. 33). Had social policies and programs been put in place earlier to help the region deal with the socio-economic impacts of in-migration, to respond to the growing inequity associated with the oil industry, to manage local expectations regarding the management of royalties, and to strengthen the capacity of the departmental and municipal governments to cope with the massive changes in the region, it is likely that sources of conflict in the region could have been addressed more effectively (Davy et al., 1999, p. 37).

CHAPTER 3: THE ROLE OF MNCs IN PREVENTING CONFLICT: STRATEGIES TO MINIMIZE CONFLICT RISKS AND NURTURE PEACE IN DEVELOPING COUNTRIES

> "The emergence of violent conflict has traditionally reduced the willingness of domestic and foreign companies to invest in the country concerned. But businesses can no longer afford to ignore the causes and the wider costs of conflict. Indeed, in some cases, businesses have tried to protect themselves or distance themselves from conflict situations, only to find themselves drawn in whether they liked it or not. […] The best guarantee of peace and stability is economic and political development, which gives all people a stake in their society and a secure environment in which they can pursue their livelihoods. Businesses are potentially in a position to exercise leverage to influence a conflict in favour of a peaceful resolution. Involvement should help to preserve a company's reputation in the short term, and protect its investment in the long term." George Foulkes, British Member of Parliament (2000, p. 30)

3.1 Corporate conflict prevention: Managing risks and promoting sustainable development

This section focuses on how MNCs can contribute to conflict prevention in developing countries. As an initial observation that applies to the following analysis, it is clear that there are limits as to what can reasonably be expected of the private sector in contributing to conflict prevention. For example, it would be grossly inappropriate for companies to become involved in military interventions or other highly politicized activities. Nor should companies be expected to take independent actions to promote peacebuilding, as they may lack the necessary skills, resources, and mandate to act alone (Rienstra, 2001, p. 33). However, business engagement in appropriate activities in partnership with other sectors could enable companies to make a positive contribution to long-term peace (Rienstra, 2001, p. 33).

According to Virginia Haufler (2001), when violence breaks out MNCs have three general options: to withdraw entirely, to stay but ignore the conflict, or to remain but try to prevent the escalation of violence (p. 663). While many advocacy groups argue that companies should withdraw from countries with repressive governments, MNCs that leave a conflict-prone country often contribute to "a continued downward slide in the economy or economic collapse that worsens the conflict" (Haufler, 2001, p. 663). Meanwhile, companies that stay but attempt to ignore the conflict could do unintentional harm by lending financial support and credibility to those factions involved in the violence (Haufler, 2001, p. 663). The third option is the focus of this paper, as it enables companies to become engaged in strategies to prevent an escalation of conflict and promote peace. The argument put forth is that MNCs can support conflict prevention in two ways: 1) by introducing policies and practices to minimize any harmful impacts which could exacerbate the risk of violent conflict (the "do no harm" principle); and 2) by introducing policies and practices which could contribute to conflict resolution, sustainable development and peacebuilding (the "do some good" principle). Once analysing the basic components of corporate conflict prevention strategies, the paper analyses BPXC's intervention programs and generates recommendations.

Before discussing how the private sector can be more closely involved in conflict prevention, it is important first to define what this concept means. According to Michael Lund:

> [C]onflict prevention entails any structural or interactive means to keep intrastate and interstate tensions and disputes from escalation into significant violence and to strengthen the capabilities to resolve such disputes peacefully as well as alleviating the underlying problems that produce them, including forestalling the spread of hostilities into new places. It comes into play both in places where conflicts have not occurred recently and where recent largely terminated conflicts could recur. Depending on how they are applied, it can include the particular methods and means of any policy sector, whether labelled prevention or not (e.g. sanctions, conditional aid, mediation, structural adjustment, democratic institution building etc.), and they might be carried out by global, regional, national or local levels by any governmental or non-governmental actor. (cited in Carment & Schnabel, 2001, p. 3).

Efforts to operationalize conflict prevention require the use of analytical tools to assess conflict risks and impacts so as to enable policy-makers to design responses that will minimize or mitigate these risks (Champain, 2001, p. 151).

Based on the discussion of investment risks in Chapter 2.1, it is clear that MNCs are already familiar with the basic tools and techniques of risk analysis and are increasingly relying on stakeholder consultations and social and environmental impact assessments to improve their overall understanding of how they affect local communities (Nelson, 2000, p. 31). However, as previously stated, most companies do not have a framework in place to assess the specific impacts pertaining to conflict-related risks (Champain, 2001, pp. 154-155). In contrast, several multilateral organizations, academic research institutes, and NGOs have developed risk assessment methodologies that rely on a variety of indicators specifically designed to analyse conflict risks and impacts (Russell, 2001, p. 9).

While there can be disagreement about which indicators are the most reliable to provide early warning about a potential outbreak of violent conflict, conflict analysts basically focus on three main categories of indicators:

> *Structural Factors:* "background conditions that form the pre-conditions of crisis situations such as systematic political exclusion, inherent economic inequities, lack of adequate and responsive institutions, the presence of ethnic minorities, resource exhaustion, over-dependence on international trade" (Joseph, 2000, p. 7).
>
> *Accelerators:* "feedback events that rapidly increase the level of significance of the most volatile of the general conditions, but may also signify system breakdown or basic changes in political causality" (cited in Joseph, 2000, p. 7)
>
> *Triggers:* "sudden events that act as catalysts igniting a crisis or conflict (e.g. the assassination of a leader, election fraud, a political scandal)" (Joseph, 2000, p. 7).

Given the overwhelming amount of data that is considered relevant to conflict risk analysis, it is extremely challenging to simplify and condense the information to make it accessible to decision-makers. Despite this difficulty, there have been several attempts recently to modify risk analysis tools for private sector usage, so as to enable the private sector to assume a more effective and prominent role in conflict prevention (See Appendix 1).

At the same time, MNCs must assess the context-specific impacts that their activities may have on political, social, environmental, and economic conditions which could potentially lead to conflict (Nelson, 2000, p. 31). In this regard, companies could follow the lead that has been established by the development community, which has begun emphasizing an approach known as Peace and Conflict Impact Assessment (PCIA). Due to the enormous challenges that aid workers have confronted in conflict zones, there has been much research devoted to formulating a framework to measure and assess positive and negative impacts of development projects on conflict (Bush, 1998, p. 1). According to Kenneth Bush (1998):

> Peace and Conflict Impact Assessment is a means of evaluating (*ex post facto*) and anticipating (*ex ante*, as far as possible) the impacts of proposed and completed development projects on: 1) those structures and processes which strengthen the prospects for peaceful coexistence and decrease the likelihood of the outbreak, reoccurrence, or continuation of violent conflict, and; 2) those structures and processes that increase the likelihood that conflict will be dealt with through violent means (p. 2).

The impetus to develop such a framework stems from the assumption that "*any* development project set in a conflict-prone region will *inevitably* have an impact on the peace and conflict environment – positive or negative, direct or indirect, intentional or unintentional" (Bush, 1998, p. 3). Therefore, Bush recommends that all development projects in an area deemed risky ought to undergo a PCIA.

There is much that the private sector in conflict-prone regions could incorporate from the PCIA approach, given the fact that investment by MNCs is certain to have an impact on the peace and conflict environment. For MNCs to adapt such an approach into their decision-making procedures, at the very minimum, there must be a clear understanding of what impacts need to be assessed and what indicators may be useful to measure these impacts. Although Bush (1998) suggests a variety of potential indicators that could be useful in the PCIA process, he cautions that if it is to be "user-driven and relevant," stakeholders must shape the framework to suit their own needs (p. 12). Currently, Country Indicators for Foreign Policy (CIFP) is one of many research organizations trying to develop such a tool to identify and measure indicators that would be relevant to the private sector.

However, the question remains whether MNCs would be willing to apply this type of risk assessment to their investment decisions and daily operations. In particular, it has to be considered whether MNCs are likely to promote social responsibility at the expense of other corporate objectives. As discussed in Chapter 2.1, MNCs would likely only modify their behaviour in conflict-prone countries if they perceive that the benefits outweigh the costs (Sherman, 2001, pp. 7-8). In fact, there may be long-term financial incentives for companies to participate in conflict prevention in developing countries, as a result of the high costs associated with conflict and the benefits that stem from peace (See Table 9).

Table 9: Business costs of conflict and benefits of peace

BUSINESS COSTS OF CONFLICT	BUSINESS BENEFITS OF PEACE
• Increased security costs • Difficult and/or costly to attract qualified personnel • Reputational damage • Material losses and impact on health and safety of staff • Opportunity costs and lost productivity • Other risk-management costs, including insurance	• Long-term investment potential built on healthy economies and stable societies • Greater government spending on infrastructure, education and training, research grants, and other productive purposes • Easier access to markets, suppliers, investors, qualified employees • Reduced operational costs

Source: (Frankental & House, 2000, p. 40)

In addition, it is quite encouraging that in the last decade, MNCs in high impact sectors have come to recognize the need to undertake rigorous environmental and social impact assessments, even in developing countries where laws and regulations governing human rights, labour conditions, and environmental issues tend to be either non-existent or ineffective (Nelson, 2000, p. 31). Given the reputational risk resulting from negative media coverage, NGO campaigns, consumer group boycotts, lawsuits, and other external actors condemning MNC activities, it seems reasonable to assume that companies would be willing to implement responsible policies to assess the conflict-related impacts of their operations.

The second main component of conflict prevention mainstreaming involves the design and implementation of policy responses to help minimize or mitigate conflict risks. These responses can include both reactive strategies, to cope with negative impacts, as well as proactive strategies, to promote conflict prevention, conflict resolution, sustainable development and peacebuilding (Frankental & House, 2000, p. 40).[56] Recently, there has been an overwhelming amount of literature from Amnesty International, International Alert, the Prince of Wales Business Leaders Forum, and the UN Global Compact providing recommendations to guide corporate responses to conflict. In general, they adhere to similar best practice guidelines regarding a role for the private sector in preventing conflict and contributing to peace (See Table 10):

Table 10: Best practices for business engagement in conflict zones

	Core Business Activities	**Social Investment and Philanthropy**	**Policy Dialogue, Advocacy and Institution-building**
Conflict Prevention	1) Implement social and environmental policies and management systems which include guidelines on human rights, anti-corruption and use of security forces 2) Undertake pre-investment conflict impact assessments and monitor impacts on an on-going basis 3) Consult with stakeholders systematically 4) Ensure diversity in workplace and hire local people 5) Aim for widespread wealth creation and support for local livelihood opportunities	1) Build capacity of local civil society organizations 2) Invest in community-based development and participation 3) Support local education, health, and enterprise development programs 4) Fund activities that promote diversity, tolerance and civic education	1) Engage in dialogue with other companies and governments to address national development needs and tackle structural issues that underpin conflict, such as corruption, inequality and human rights abuses 2) Fund think-tanks and research on these issues 3) Undertake publicity and media campaigns to promote peace
Crisis Management	1) Supply of relief products, equipment and services on a commercial basis 2) Ensure integrity of the company's own security arrangements when operating in a conflict zone	1) Partner with NGOs and governments on product donations 2) Support work of humanitarian and development efforts	1) Put pressure on politicians to negotiate or to remain supportive of conflict resolution efforts 2) Provide secretariat services and logistical support for peace negotiations 3) Engage directly in peace delegations or negotiations if appropriate and within an agreed framework
Peacebuilding	1) Provide commercial support in rebuilding infrastructure and investing in productive sectors 2) Conduct business activities in a way that builds local human capital and business capacity, especially for small-scale businesses, while respecting the diverse interests of different groups and promoting reconciliation	1) Focus on projects that target affected populations, and ex-combatants taking into account the type of activities mentioned under the prevention heading 2) Support NGOs active in reconciliation efforts	1) Support any local peacebuilding initiatives, such as truth commissions, reconciliation programs, weapons hand-ins, amnesty and demobilization programs 2) Provide funding and managerial support to build the capacity of government services, including judicial systems and police forces 3) Support initiatives to attract foreign investment to post-conflict regions 4) Build capacities and governance systems for the local private sector

Source: (Nelson, 2000, pp. 68-69)

[56] These strategies pertain to companies that choose to remain engaged in a conflict-prone country, although as discussed earlier, it is possible for a company to withdraw or ignore conlict.

As Table 10 indicates, MNCs can contribute in many different ways to conflict prevention, crisis management, and peacebuilding through policies and practices related to their core business activities, through social investment and philanthropy, and through dialogue, advocacy and institution-building.[57] However, when considering how MNCs can become involved in conflict prevention, it is important to recognize that companies must act in partnership with other interested parties. As Phil Champain (2001) argues, "If a company is seen to be leading this process then the outcomes may be threatened by perceptions of the dialogue being staged by one of the parties to the conflict and therefore being biased" (p. 151).

Of primary interest to this paper is the potential for companies to become more closely involved in social investments that seek to prevent conflict. From a humanitarian and development viewpoint, it makes far more sense to minimize sources of conflict before there is an escalation in violence, so as to avoid having to react to the multiple issues resulting from a worsening of the situation (Nelson, 2000, p. 19).[58] If social investments are to be effective in preventing conflict, it is argued that companies ought to support activities that can have a direct impact on factors related to the causes and effects of violence, including: education, local enterprise development, health programs, community peacebuilding and reconciliation, institution strengthening, and the promotion of a tolerant civil society (Nelson, 2000, p. 66).

However, social investments are likely to create unforeseen problems if companies simply throw money towards development projects in conflict sensitive societies (Gaigals & Leonhardt, 2001, p. 6). Rather, companies should become involved in partnerships with local, regional, and

[57] While conflict prevention, crisis management and peacebuilding each entail different types of practical responses to conflict, they represent related components of a framework for overcoming conflict.
[58] This is the same motivation that drives organizations such as FEWER, who promote early warning and early response.

national actors to develop strategies to support peace and address the underlying causes of conflict (Rienstra, 2001, p. 33). As in all development initiatives, it is crucial that companies consult with stakeholders and encourage a participatory approach to decision-making on funding priorities and the design of social programs (Nelson, 2000, p. 66). In addition, companies should make use of their core competencies by mobilizing management skills and other non-financial resources towards the strengthening of community development programs (Russell, 2001, p. 17). Finally, the issue of sustainability is increasingly important. If companies are going to invest in costly programs and projects, it is important to ensure that the investments will promote real human development that offers long-lasting and equitable benefits (Nelson, 2000, p. 66).

As discussed earlier, it is unlikely that companies will become more involved in these types of activities unless it is of some benefit to their own internal interests and objectives. For example, BP Amoco in Colombia recognizes that due to the on-going conflict, it is necessary for the company to obtain a "license to operate" from communities affected by their activities (Davy et al., 1999, p. 31). Therefore, companies must articulate what they are hoping to achieve through social investment programs and partnerships, whether the goals are related to direct business benefits, public relations value, employee development opportunities, or genuine altruism (Nelson, 2000, p. 66). By establishing target measures, guidelines, and external auditors to monitor these types of investments, companies can ensure that there is an adequate balance between community needs and corporate interests (Tull, 2001, p. 27).

While there seems to be much enthusiasm about this approach to corporate involvement in conflict zones, there has been a fairly limited response on the part of MNCs in implementing these recommendations (Rienstra, 2001, pp. 3-4). Only those companies which have confronted some of the worst allegations pertaining to corporate complicity in conflict have played an active role in trying to transform their policies and practices so as to improve their impact on a conflict situation (Rienstra, 2001, p. 4).[59] Despite a growing emphasis on corporate accountability, there are no clear standards for evaluating, benchmarking and certifying corporate conflict prevention efforts (Champain, 2000, p. 154-155). Part of the problem stems from the fact that companies have only recently begun to think of conflict prevention as a separate issue within the broader agenda of corporate social responsibility (Rienstra, 2001, pp. 3-4). If MNCs are to promote conflict prevention more seriously, there must be a framework to guide corporate decision-making on issues pertaining to conflict, consisting of a statement of values supported by initiatives that demonstrate commitment, followed up with consistent monitoring and reporting mechanisms.

Already, a number of such frameworks have been established to address issues that touch on human rights, labour standards and the environment (See Appendix 2). However, there is much scepticism about the motivations and effectiveness of MNC efforts to tackle issues related to corporate social responsibility (Jenkins, 2001, pp. 26-27). There is a sense that companies are solely interested in improving their reputations without actually transforming the way they manage their operations. Although there may be some justification for this scepticism, it seems that most MNCs are genuinely interested in playing a positive role in society, particularly in conflict-prone countries (Rienstra, 2001, pp. 32-33). As Dr. Gibson-Smith of BP Amoco stated during a British Parliamentary International Development Committee meeting in 1998: "[Conflict] threatens our whole commercial presence in a country since, for such a presence to be sustainable, we need prosperous peaceful societies" (¶ 4). By examining how BPXC has attempted to address these issues in their own operations in Casanare, it is possible to gain some insight into the challenges and opportunities that corporate conflict prevention strategies offer.

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[59] This seems to support Forcese's argument that corporate decision-making with response to human rights issues and corporate social responsibility is highly responsive to external pressures.

3.2 Partnerships for development and peace: Potential strengths and limitations of BPXC's corporate conflict prevention strategy

As discussed in Chapter 2.2, BP Amoco's community affairs policies have been revised substantially over the last decade and a half. In 1998, the company teamed up with the World Bank, who convened a group of global firms and civil society organizations, known collectively as Business Partners for Development (BPD), to investigate the role of inter-sectoral partnerships in promoting sustainable development and peace (BP Amoco, 2000, p. 6). BP Amoco agreed to showcase its experience in Casanare with the eventual goal of sharing expertise and knowledge with other companies interested in this model of engagement (Nelson, 2000, p. 124).

BPD's pilot project focuses on BPXC's social engagement in the region, which is guided by a 1996 policy report titled *Casanare 2000: A vision for the future* (Davy et al., 1999, p. 27). The company's long-term goal is "to create sustainable non-oil dependent social and economic development programs" so as "to leave a positive legacy after the oil exploration ends" (Tull, 2001, p. 3). In 2000 and 2001, BPD undertook a preliminary assessment of the objectives, actions, and results of BP Amoco's social investments in Colombia, which provides the basis of information for this section. After describing BPXC's engagement in promoting peace and development, the paper analyses the major obstacles that could hamper the company's ability to achieve its objectives, and evaluates the effectiveness of the program to date.

As discussed previously, the major potential for regional development in Casanare depends largely on the management of annual royalty payments allocated to the municipal and departmental governments (Davy et al., 1999, p. 24).[60] As a result, BPXC has become increasingly concerned about the lack of accountability and transparency within these levels of government, as

[60] The royalties are worth approximately $US 90 million a year, a figure which dwarfs BPXC's social investment budget of approximately $US 3 million a year.

this affects how the public perceives the overall influence of the company (Davy et al., 1999, p. 44). In response, BPXC has worked to develop a tri-sector partnership model to promote better cooperation between civil society, business, and government to improve development planning at a regional and local level. According to the World Bank's evaluation, this partnership could have a positive effect on political conflict in the region:

> This may also begin a process to help resolve the 'wealth and violence' issue by building national and local support for public—private development interventions. Such interventions could reduce the credibility of the local guerrilla factions and paramilitaries, and thereby help to alleviate the security situation, which has proven to be a disincentive to inward investment in Colombia. (Davy et al., 1999, p. 44)

Therefore, the eventual outcome of BPXC's efforts to prevent any further escalation of conflict in Casanare will be directly linked to the effective usage of oil royalties and the potential development benefits that these royalties may bring (Davy et al., 1999, p. 37).

The tri-sector partnership model is being led by a Steering Committee of seven representatives from the business community, civil society groups, and different levels of government (Tull, 2001, pp. 17-18). The operating structure allows BPXC to exercise leverage in the planning and implementation of governmental development projects in Casanare so as to encourage greater transparency and more strategic policy-making. Because of the lead role taken by BPXC in designing and implementing the partnership program, there has been criticism regarding the dominance of the company in relation to other representatives (Davy et al., 1999, p. 45). Although this concern is less relevant now that the Steering Committee is operational, there is a risk that BPXC may be too heavy-handed in promoting its vision of development in the region. Meanwhile, other stakeholders have their own interests in either supporting or rejecting the tri-sector partnership model (See Table 11).

Table 11: Stakeholder mapping in Casanare

Stake-holders	Representative actors	Underlying interests	Resources to contribute
BPXC	- Communities Affairs in Bogotá - External Affairs in Casanare - Central Processing Facilities	- "license to operate": easier to do business in Casanare if community supports BPXC - reduce operating costs by fostering a more cooperative social environment (improve security, staff mobility) - intangible benefits to employees stemming from satisfaction of seeing effective regional development resulting from the royalties and social investments - most of staff is Colombian who care about the well-being of the country	- influence over national and local levels of government to expedite approval of projects, licenses, funding etc. - international perspective and expertise and knowledge of best practices in other countries - logistical support and leadership training - funding for social investments (on average around $US 3 million a year)
Civil Society	- Fundación Amanecer - Corporación Cemilla - Community and local leaders	- improve standard of living - gain control over decision-making to ensure that oil-related funds benefit the region - represent common interests and protect vulnerable sectors of society - voice concerns directly to government and oil companies - improve legitimacy of government by monitoring corruption - ensure that there is continuity in the program when government administrations change	- grassroots representation - popular support and local buy-in - organization skills within local communities - publicity - long-term vision, interest and commitment - connection and access to communities - support and promotion of programs
Local Government	- Governor's Office - Mayor's Office - Chamber of Commerce	- create a positive impact on regional development - improve legitimacy of government and its leadership - improved management of local financial resources - ensure that MNCs properly compensate communities for environmental and social impacts of oil exploitation - maintain local control over investments - reduction of violence and economic disparity	- authority/licensing - minimizing bureaucracy - government rates on materials, services, etc. - publicity - land or other in-kind resources
National Government	- President's Office - Social Solidarity Network	- development of a model that can be applied in other regions of Colombia to promote social and economic development as well as indirect support of peace process - transparent system that is efficient, effective and free of corruption - lowering of tensions caused by income disparities	- authority/licensing - minimizing bureaucracy - government rates on materials, services, etc. - publicity - land or other in-kind resources
Other Actors	- Other oil companies in Casanare - International NGOs	- offer support and advice when necessary - become more involved in program if it becomes successful - possible interest in replicating the program elsewhere	- network to assist in the implementation of projects - financial donations - international and national publicity
Potential Spoilers	- illegal armed groups - any group that feels excluded	- undermine the legitimacy of the program - interfere in the implementation of projects - threaten the security of those involved in the Steering Committee	- violence - negative publicity

Adapted from: (Tull, 2001, pp. 16-21)

While the tri-sector partnership model could help to minimize sources of political conflict in the region, it is also important to consider how the actual programs put in place by the Steering Committee are likely to impact the causes of violence in Casanare. In their initial meetings, members of the Steering Committee broadly agreed that the major obstacles to achieving peace and prosperity in Casanare arise from the region's on-going crisis stemming from the civil conflict (Tull, 2001, p. 10). According to Andrés Solimano (2000), this crisis is manifested by a simultaneous breakdown in economic, political, and socio-cultural institutions:

> At the economic level, the investment climate deteriorates in an environment without well-defined rules, with ensuing adverse effects in terms of economic growth and employment creation. Another manifestation of crisis is the emergence of violence, a phenomenon linked to a breakdown in rules of behavior. High levels of violence and insecurity not only deteriorate the investment climate, but have economic as well as human, social, and political costs which exacerbate the crisis. (p. vi)

Using this analysis as a framework to guide policy planning, the Steering Committee categorized three different types of systemic crises affecting the region: a crisis of rationality, a crisis of trust, and a crisis of motivation (See Table 12) (Tull, 2001, p. 10).[61]

Table 12: Addressing economic, political and social issues in Casanare

Type of crisis	Definition	How it is manifested	Strategy to address crisis
Crisis of rationality	- a breakdown of the rational administrative practices necessary to maintain economic stability	- inability of government to manage and regulate the economic system - weak levels of economic growth and employment creation	- promote sound economic development by strengthening the agricultural sector - improve employment rates through micro-enterprise development
Crisis of trust	- a breakdown in the level of public support, credibility, and trust in existing institutions	- lack of legitimate political institutions - weak accountability and monitoring mechanisms - excessive corruption	- strengthen political awareness - encourage participation of civil society in local decision-making - promote greater transparency in municipal and regional governments
Crisis of motivation	- breakdown of values, traditions and norms in society	- violence and insecurity - emergence of pervasive social problems, such as alcoholism, drug abuse, domestic violence etc.	- socio-cultural promotion through conflict resolution education and community training programs - use of media to promote message of peace

Adapted from: (Solimano, 2000, p. v; Tull, 2001, p. 10)

[61] This framework represents an interpretation of the work of Jurgen Habermas, who developed a taxonomy of systemic crisis consisting of economic crisis, rationality crisis, legitimation crisis and motivation crisis, which roughly correspond to economic, political and social elements of societal breakdown (Solimano, 2000, p. v).

While the Steering Committee eventually hopes to support projects to address all of these inter-related issues through the strategies identified in Table 12, its initial focus has been to promote an eight-month Community Training Program for leaders representing civil society, local government, and the private sector, and for students in secondary schools in the region (Tull, 2001, p. 12). This program seeks to build institutional capacity to improve development planning skills in the public, private, and non-for-profit sectors. The program's agenda includes modules on: ethics and leadership; laws, instruments of law, and investment plans; models of effective development programs; gender and equity, social justice, and conflict resolution; development of projects that contribute to quality of life; sustainability of agricultural projects; and use of the media (Tull, 2001, p. 12).

The Steering Committee is offering the training program on an on-going basis for the next three years, although it will monitor and assess its impact to ensure that it represents an effective usage of resources (Tull, 2001, p. 14). Other projects will be sponsored on a more ad hoc basis, as long as they fit in with the overall objectives of the program. In all of its activities, the Steering Committee intends to develop an "institutional performance contract" between partners so as to ensure that there is agreement regarding the institutional responsibilities and accountabilities of each party (Davy et al., 1999, p. 46). The performance contract will be based on a results-based management system with measurable indicators to determine the success of the projects sponsored by the Steering Committee (Tull, 2001, p. 27).

In addition, since 1999, BPXC has been promoting ethics workshops for its employees and contractors, as well as a community peace and tolerance education initiative, known as "Time for Peace," in partnership with the Governor of Casanare, the Red Nacional de Iniciativas por la Paz y contra la Guerra (Redepaz), and the Casanare Ombudsman (BP Amoco, 2000, p. 13). According to BP Amoco "The programme consists of a series of discussion workshops in which five booklets are used, covering subjects such as tolerance, living together, human rights, values and communication, community involvement and peaceful resolution of conflicts" (2000, p. 13). BPXC seems to recognize that its ability to address issues related to the conflict will be an important determinant of the success of its other initiatives to promote sustainable development in the region. Likewise, "a large part of what will ultimately reduce the current level of violence in Colombia will be the social and economic development of the poorer regions like Casanare" (Tull, 2001, p. 24).

Although BPXC's social investments and its stewardship of planning and implementation processes surrounding the use of oil royalties have the potential to contribute to conflict prevention, there are many risks and obstacles that the company has yet to overcome. First and foremost are the risks related to the conflict itself. In fact, an evaluator from Business Partners for Development concluded that "It is certainly a possibility that any one of the armed groups could decide that the tri-sector partnership and the people involved in developing it are military targets" (Tull, 2001, p. 23). In this context of repression, human rights abuses, and widespread violence, it is extremely difficult for BPXC to ensure that its social investments result in the intended positive impacts that they are designed to achieve (Davy et al., 1999, p. 31).

While BP Amoco argues that the company ought to remain engaged in countries experiencing an on-going crisis, David Rice, Director of the BP Amoco's Government and Public Affairs Policy Unit, cites two exceptions where divestment would be appropriate: "where our ability to maintain the safety and security of employees is compromised, and where it becomes impossible to operate in accordance with business policies" (cited in Frankental & House, 2000, p.

65). It is worth considering whether a third rationale for withdrawal ought to be based on whether the company can ensure it plays a constructive role in promoting peace and development.[62]

Other risks and obstacles that could obscure the benefits of BPXC's social investments in the region pertain to challenges common to development projects in general. For example, there is a risk that the tri-sector partnership model will be perceived as a threat to government authority. This requires BPXC to manage this relationship carefully to ensure that it does not assume responsibilities beyond what is appropriate for a foreign company (Tull, 2001, p. 22). Already, local residents seem to perceive BPXC as a surrogate provider of public services given the weakness of most government institutions in the region (Davy et al., 1999, p. 41). Because of the dominance of BPXC within Casanare, there could be localized power-struggles and conflict once the oil reserves are depleted and the company eventually withdraws. To manage this risk, BPXC must take responsibility for promoting local ownership of development initiatives. The company should also ensure that the outcomes of future projects are sustainable and effective, so as to prevent further disappointments which could worsen long-term development prospects and exacerbate conflict.

Furthermore, many residents of Casanare associate BPXC's presence with the region's escalating social, economic, and political problems (Dudley & Murillo, 1998, p. 44). Community expectations regarding the role of oil investment in promoting development have already proven to be a source of regional tension (Davy et al., 1999, p. 1). Therefore, there is a need to rebuild trust

[62] For a company to withdraw from a country on the basis that it is not able to contribute positively to the local society would be a very unlikely corporate response to conflict, unless there were net benefits associated with withdrawal. Even so, it is arguable that divestment would improve the situation, as commercial operations would likely continue under new ownership, potentially with less concern about managing any conflict impacts (Mack, 2001, p. 9). This is likely to be the case with Talisman Energy in Sudan. For years, it has been under pressure to divest and withdraw from Sudan, especially following the release of the Canadian government's Harker Report which criticized the company for contributing to the escalation of conflict. There has been recent speculation that Talisman is in the process of selling its shares in a Sudanese oil pipeline to an Indian oil and gas company, which will no doubt face less scrutiny and pressure to behave responsibly (Nguyen, 2002, p. B4.). The net effect may be a worsening of the impact of oil operations on the conflict.

between BPXC and the affected communities, and to improve relations between government, civil society and businesses in the region (Tull, 2001, p. 22). In the long-term, interventions to improve development cooperation could have a positive impact in terms of reducing sources of social and economic violence, while discrediting those who sponsor political violence in response to the challenges confronting the region.

General guidelines on ways in which BPXC might mitigate these risks and overcome some of the obstacles affecting the efficacy of their social investments include the following recommendations:

- Put in place clear mechanisms to guard against the possibility of personal gain
- Ensure the transparency of documents and communications
- Broaden participation to encourage local buy-in and establish rules to govern this participation
- Hold public consultations before major decisions are made and allow for open discussion of alternatives
- Establish standards for accountability and set up mechanisms for evaluating success

(Tull, 2001, pp. 25-26)

Although these recommendations do not guarantee that BPXC's social investments will be successful in preventing an escalation of conflict, they at least establish a framework of accountability that could be influential in determining the eventual outcome of the programs sponsored by the company.

Meanwhile, it is important to assess whether BPXC's social policies and practices have been effective in contributing to conflict prevention with respect to the criteria outlined in Chapter 3.1. The paper argues that the best corporate response would be for BPXC to minimize any social, economic, environmental and political impacts that could exacerbate conflict and to address the underlying causes of violence in the region. However, as BPXC has only recently begun formulating specific programs that focus on conflict prevention and risk mitigation, it is somewhat difficult to evaluate the impact of its efforts.

Over the past decade, the company has clearly assumed a greater responsibility for managing its impact on conflict, yet the level of violence in Casanare is worsening, as it is in many regions throughout Colombia. Unfortunately, as the security situation deteriorates, there may be less potential for the company to become actively involved in community development and conflict prevention efforts (Frankental & House, 2000, p. 112).[63] However, BP Amoco seems strongly committed to its goal of promoting development and peace in Casanare, as demonstrated by its adherence to policy guidelines and practices that contribute to conflict prevention. The company now makes use of innovative risk assessment strategies to identify in advance any potential sources of conflict and puts in place strategies to mitigate social impacts and strengthen the capabilities of local actors to resolve conflict peacefully (BP Amoco, n.d.).

While these activities are an important component of corporate conflict prevention, the company should consider financing more significant investments in peace and development. To date, BPXC has spent a total of $US 30 million on social programs, representing a tiny proportion of the $US 3 billion that it has invested in Colombia (BP Amoco, 2000, p. 6). For the company to achieve the ambitious goals encapsulated in its *Casanare 2000* policy report, it may be necessary to provide more generous funding towards conflict prevention initiatives and social programs (Davy et al., 1999, p. 27). Although the company has tried to work around its limited social investment budget by co-financing projects with the municipal and departmental governments, it is clear that local communities expect more from BPXC (Davy et al., 1999, p. 41).

In fact, many local residents have become disenchanted with the oil industry, even though external evaluations of the specific projects and programs sponsored by BPXC in Casanare have

[63] For example, security concerns were likely a factor influencing the decision to relocate the company's offices in Yopal, Tauramena and Aguazul to the main production facility, which is heavily fortified.

been quite positive in terms of the achievement of developmental objectives and outcomes (Davy et al., 1999, pp. 39-41). This disenchantment stems from a widespread perception among many communities that there has been inadequate compensation for the negative impacts associated with oil production (Tull, 2001, p. 7).[64] At the very least, this should provide an indication to BPXC that it must improve its dialogue with local citizens to ensure that it is equipped with a solid understanding of the impacts and issues affecting Casanare's population.

In sum, although it may be too early to judge the success or failure of BPXC's investments in promoting peace and development, the evolution of the company's social policies and practices and the recent implementation of the tri-sector partnership model of engagement provide an important lesson for other companies interested in preventing conflict. In the future, on-going monitoring and evaluation of BPXC's intervention strategy will be required to draw further conclusions about the effectiveness of this approach to conflict prevention.

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[64] This perception is quite different from BP Amoco's understanding of its role in Casanare, as it tends to view its contribution to development both in terms of its own social investments and the royalty payments accruing to the local governments (BP Amoco, 2000).

CONCLUSION AND RECOMMENDATIONS

"For any company, commercial success and a highly competitive financial performance are essential. What we are learning, however, is that enduring success requires something more, and that the ability to make a constructive contribution to society and to bring positive energy to the solution of its problems is the key to the development of genuine trust and to all the opportunities which flow from that trust." Sir John Browne, Chief Executive Officer, BP Amoco (cited in Frankental & House, 2000, p. 26)

"Whether at the World Trade Organization, or at the OECD, or at the United Nations, an irrefutable case can be made that a universal acceptance of the rule of law, the outlawing of corrupt practices, respect for workers' rights, high health and safety standards, sensitivity to the environment, support for education and the protection and nurturing of children are not only justifiable against the criteria of morality and justice. The simple truth is that these are good for business and most business people recognize this." Thomas D'Aquino, Chief Executive Officer, Canadian Council of Chief Executives (cited in Forcese, 1997a, p. 12)

Although the last decade has seen an unfortunate escalation of conflict in many of the poorest countries in the world, there are encouraging signs that interested actors in the private and public sector are willing to take on the challenges of promoting peace and development in conflict-prone societies. While MNCs are capable of making grave errors in managing their impacts on conflict and violence in developing countries, it is important to recognize that over the past several centuries, the private sector has increasingly rejected practices that intimately link war and commerce:

> In the past the organization of trade had been military and warlike, it was an adjunct of the pirate, the rover, the armed caravan, the hunter and trapper, the sword-bearing merchant, the armed burgesses of the towns, the adventurers and explorers, the planters and conquistadors, the manhunters and slave traders, the colonial armies of the chartered companies. (Polanyi, 1957, p. 15)

More often, the risks related to MNC investment in conflict-prone countries now result from corporate neglect in monitoring and mitigating the direct and indirect impacts of their activities on conflict.

In investigating the research questions posed by this paper, it quickly became clear that there are no easy answers regarding the role and responsibilities of MNCs in preventing conflict in developing countries. While MNC investment can exacerbate conflict in certain situations, the overall influence an MNC may have is highly dependent on context-specific factors (Nelson, 2000,

p. 37). Thus, studying the issue using a macro-level approach is not particularly relevant to the task of understanding the complex inter-relationships between an MNC and its host society. Examining these relationships in the context of BPXC's operations in Casanare provides evidence that MNC investment in conflict-prone societies presents both risks and opportunities.

The challenge for corporate decision-makers is to determine when risks become unmanageable, and to take advantage of opportunities to promote good. As MNCs are encountering greater pressure to behave responsibly in developing countries and to contribute positively to the societies in which they operate, there is some cause for optimism regarding a potential role for the private sector in conflict prevention (Nelson, 2000). However, success in this area would require much stronger adherence to best practice recommendations regarding corporate behaviour in conflict-prone countries.

Recommendations on how to encourage broader participation in corporate conflict prevention pertain to several different areas of concern. First, there is a need to mainstream the use of peace and conflict impact assessment tools to measure risks related to specific MNC activities. This is essential if MNCs are to develop comprehensive strategies to monitor, evaluate and minimize any potential impacts that may worsen conflict and to promote practices that help to prevent conflict. Second, it is important that more research is undertaken to determine the effectiveness of different corporate responses to conflict. Although MNCs are more conscious of corporate social responsibility issues, it is difficult to determine whether this has enabled companies to contribute to conflict prevention. Efforts must be made to encourage MNCs to participate in conflict prevention as an explicit objective, related to but distinct from human rights, community development, and environmental issues.

Although conflict risk and impact assessment tools will enable MNCs to make informed choices about their business operations, there must also be incentives for corporate decision-makers to become more actively involved in conflict prevention (Berman, 2000, p. 32). If there is pressure on MNCs to behave in a socially responsible manner and clear benefits for doing so, there is likely to be growing support among MNC decision-makers for more concrete guidelines, policies, and regulations regarding the role and responsibility of the private sector in conflict-prone countries. In this respect, government, NGOs and businesses must cooperate to find ways to make MNCs more responsive to the issues surrounding conflict prevention.

Government agencies should take a lead in developing standards and guidelines for investment in conflict-prone regions. Within Canada, trade promotion and export financing agencies, such as Export Development Canada (EDC), CIDA-INC, the Trade Commissioner Service, the Business Development Bank of Canada, the Canadian Commercial Corporation, as well as Regional Trade Networks, should all have coherent policies when it comes to providing advice and services to Canadian companies investing in conflict-prone countries. As Canadian companies tend to invest in high-impact sectors, such as mining, oil and gas, telecommunications, hydro-electrical engineering, and forestry, it is essential that government agencies emphasize the importance of undertaking peace and conflict impact assessment and risk analysis. This task would be especially well-suited to CIDA-INC, whose mandate is to support development-oriented aspects of Canadian commercial investment in developing countries. In addition, publicly-sponsored export financing programs, such as EDC, ought to examine their risk criteria to ensure that they are aligned with conflict prevention objectives.

NGOs must also play an active role in promoting corporate conflict prevention. Many different organizations have already become involved in researching the linkages between MNCs and conflict, and developing tools for conflict impact and risk assessment. There may be synergies between corporate conflict prevention and the work of NGOs to promote human rights, environmental sustainability, and corporate social responsibility. By generating critical research on corporate activities in conflict zones and by evaluating the success of corporate efforts to prevent conflict, NGOs can help to establish criteria for corporate engagement and assist in the benchmarking of uniform standards that could apply to sector-specific companies. In addition, NGOs are well positioned to play a role monitoring and improving participation in corporate conflict prevention. NGOs can also act as a bridge between the government and the private sector, to ensure that both are upholding their public responsibilities relating to conflict prevention.

Finally, the private sector and investment groups have the most at stake when it comes to corporate conflict prevention. It is in the interests of MNCs to establish clear guidelines governing investment and operational decisions in conflict-prone countries by engaging in dialogue and by partnering with civil society groups, multilateral organizations, and governments. Ultimately, the success of corporate conflict prevention strategies will depend on the extent to which companies are willing to introduce risk assessment and management strategies to ensure that their activities have a net positive influence. Therefore, industry associations and export/trade organizations should be at the forefront of efforts to develop conflict prevention tools, while individual companies must continue to support efforts to mainstream conflict prevention policies and practices.

To conclude, corporate conflict prevention represents a new area of intervention that is of increasing interest to many conflict analysts. Examining these issues in the context of BP Amoco's operations in Casanare provides important insight into ways in which companies can unintentionally exacerbate conflict, and ways in which companies can become part of a solution to prevent the escalation of conflict. Although BPXC's efforts to promote development and increase the capacity of local actors to manage conflict have not resulted in a lessening of regional violence in Casanare, it is encouraging that the company is aware of its responsibilities and willing to play a role in promoting peace in Colombia. Whether businesses are able to support conflict prevention and sustainable development will arguably be an important determinant of the eventual success of any efforts to resolve the civil conflict and achieve economic, social, and political stability (Aninat, 2002). Although the private sector represents only one of many actors that can contribute to conflict prevention, the Colombian case suggests that there is a growing demand for MNCs to invest in peace and development.

APPENDIX 1: Tools to promote corporate conflict prevention

Tools to Promote Corporate Conflict Prevention	Purpose and objectives	Progress to date
Business and Peace Programme (Prince of Wales Business Forum & International Alert)	- to promote the role that business can play (individually or collectively) in contributing to long-term peace in conflict-prone areas, and to help companies develop and implement policies and practices to this end - main activities include: advocacy, research and analysis, and country-level initiatives to disseminate conflict-sensitive management policies among businesses in conflict zones and to promote better relations between business, government & civil society	- have published a comprehensive report, *The business of peace*, on ways the private sector can become a partner in conflict prevention - are developing case studies of companies contributing to peacebuilding around the world - are producing guidelines and manuals that set out basic criteria for use in practical situations - have developed an on-line Conflict and Security Resource Centre for companies and researchers
Business Humanitarian Forum (Business Humanitarian Forum)	- to promote dialogue between leaders of humanitarian organizations and businesses, to support exchange of information and experience between the business and humanitarian communities, to foster effective co-operation between the two communities, to provide information and to advise on relations between the business and humanitarian communities	- was founded in 1999 and has convened several meetings to improve communication between business and humanitarian agencies - has established a Geneva-based non-profit organization to move the BHF agenda forward
Conflict Prevention and Business Involvement (UK Department for International Development)	- to raise awareness about the negative and positive influences that companies can have on conflict situations and to foster partnerships between NGOs, government and business in conflict zones	- organized an international conference in May 2000 to focus debate and raise awareness of the opportunities and dangers which businesses may encounter in conflict-prone regions - currently organizing in-country round tables
Corporate Engagement Project (Collaborative for Development Action Inc.)	- to provide managers with a better perspective on which aspects of their operational decisions have direct and indirect conflict impacts, to identify operational options that have positive impacts on relationships among groups and promote overall social and political stability, to design management tools that lower the costs of security, insurance, and reputational damage and that contribute to establishing a positive legacy for the company	- with funding from the World Bank, the governments of Canada, Denmark, Germany, and the Netherlands, and from private contributors, CDA is undertaking consultations with 20 companies (representing a wide array of sectors and geographical locations) as part of their research into corporate experiences in conflict zones, to identify patterns and replicable management options - the final product will be a publication detailing lessons learned and practical tools developed, which will be made available to the wider international business community
Fund for Peace (Foreign Policy Roundtable)	- to create dialogue between corporate and human rights representatives on how to achieve common goals and interests - 2 major themes include promotion of the rule of law and support for open societies	- founded in 1998 in Washington, DC - undertake monthly meetings with representatives from 16 companies and 20 NGOs - working on a set of joint principles and a management tool on partnerships
Policy Dialogue on Business in Zones of Conflict (UN Global Compact)	- forum where representatives from companies, NGOs and trade unions identify key issues and concrete actions pertaining to the role of the private sector in conflict areas and explore ways and means by which business and other actors of society can contribute conflict prevention - main focus of research/analysis includes: 1) transparency; 2) multistakeholder initiatives in zones of conflict; 3) revenue sharing regimes; and 4) conflict impact assessment and management tool box	- over the last 2 years, participants have had 3 conferences and formed working groups to come up with frameworks and solutions pertaining to the 4 key issues - will soon be releasing a full report detailing their conflict impact assessment and management tool box, consisting of a conflict risk assessment tool focusing on the pre-investment and pre-operational phases of a project and a conflict impact risk management tool focusing on how to manage risks once corporate investment is operational - have established 8 pilot projects on the role of the private sector in conflict zones
World Diamond Council (World Federation of Diamond Bourses & the International Diamond Manufacturers Association)	- to develop, implement, and oversee a tracking system for the export and import of rough diamonds to prevent the exploitation of diamonds for illicit purposes such as war and inhumane acts - the Council includes representation from the diamond industry, countries where diamonds play a major economic role, and the international financial sector	- drafted a proposal for import/export regulations on rough diamonds - cooperating with UN, diamond industry, governments in countries that either import or export diamonds, and concerned civil society groups to push the Council's agenda forward

APPENDIX 2: Comparison of corporate accountability frameworks

Selected Framework	Scope	Main focus	Objectives/Purpose
Global Reporting Initiative (United National Environment Program)	- Social issues (including labour and human rights), environmental issues, and economic issues - Multi-stakeholder (open to any type of organization including the private sector)	- "Sustainablity reporting" or the voluntary reporting of economic environmental and social performance using a standard set of guidelines and indicators	- Generate comparable, rigorous and verifiable information about performance and practices - Promote transparency and accountability
Global Compact (UN-led)	- Compact covers 9 principles related to labour, human rights and the environment - Mainly focuses on MNCs	- Voluntary UN initiative: participating companies agree to promote the 9 principles, report on concrete steps taken to promote these principles, and publicly advocate the Global Compact	- Create a forum for learning and sharing corporate experiences in the promotion of the 9 principles
OECD Guidelines for Multinational Enterprises (OECD)	- Guidelines cover employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology - Addressed by OECD member country governments to multinational enterprises operating in or from OECD countries	- Voluntary code of conduct that includes non-binding recommendations on practice and disclosure for multinational corporations	- Promote the positive contributions multinationals can make to economic, environmental and social progress - Foster better disclosure on the part of multinational corporations
Tripartite Declaration of Principles Concerning Multinationals and Social Policy (ILO)	- Principles relate to employment, training, labour conditions, and industrial relations - Principles are commended to multinational enterprises as well as to governments and employers' and workers' organizations of home and host countries	- Voluntary code of conduct that sets out commitments for governments, MNCs and employers' and workers' organizations	- Encourage multinational enterprises to contribute to global economic and social progress and to minimize and resolve any negative impacts to which their various operations may contribute
Global Sullivan Principles of Social Accountability (Global Sullivan Principles)	- Set of 8 principles linked to social issues, labour conditions, environmental sustainability, and human rights - Emphasis is on MNCs although smaller companies are welcome to join	- Voluntary code of conduct with simple reporting measures to assess companies' progress towards meeting the aspirations embodied in the 8 principles	- Encourage companies to support economic, social and political justice, promote human rights and equal opportunity, foster a culture of peace and tolerance, and improve the quality of life for employees and their communities
Social Accountability 8000 (Social Accountability International & the Council on Economic Priorities Accreditation Agency)	- Guidelines govern labour conditions, human rights and social accountability - Global program that targets companies of all sizes	- Voluntary code of conduct related to labour conditions, policies and practices - Certification program for companies to verify compliance with the standards using accredited auditors to monitor and assess performance	- Encourage key stakeholders to develop consensus-based voluntary standards - Promote implementation of SA 8000 standards worldwide
Human Rights Guidelines for Companies (Amnesty International)	- Guidelines relate to human rights, corporate security, community engagement, discrimination, forced labour, and health and safety - Global program that targets companies of all sizes	- Checklist of human rights guidelines for companies and recommendations related to frameworks for strategic planning & policy, security arrangements, personnel policies & practices, and monitoring and implementation of human rights practices	-Encourage companies to use their influence to mitigate the violation of human rights - Assist companies in confronting situations of human rights violations or the potential for such violations
GoodCompany Guidelines (Canadian Business for Social Responsibility)	- Guidelines relate to social, environmental and financial performance - Directed mainly to Canadian companies	- Checklist for companies to identify performance gaps and pinpoint policies to address problems related to financial, environmental and social practices	- Enable companies to assess, improve and report on their social, environmental and financial performance
Ethical Trading Initiative (alliance of companies, NGOs, and trade unions)	- Guidelines relate mainly to labour standards - UK-based organization that focuses mainly on UK companies	- Voluntary code of conduct that focuses on labour conditions as well as standards for ethical sourcing, including provisions for the monitoring and independent verification of the observance of ethics code provisions	- Identify and promote ethical trade and good practice in the implementation of labour standards

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