

# MHCi MONTHLY FEATURE

## August 2012

### 'Doing Business in Regions of Conflict: Can CSR help<sup>1</sup>?

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#### Abstract

*Business continues even in regions of conflict. But what does corporate social responsibility really mean under conflict conditions? How can business not make the situation worse and how far can private enterprise go in actively building peace?*

#### Introduction



*Michael Hopkins (MHCi) and Zeinab Badawi (BBC), May 2012*

The movement toward increased social, economic, financial and environmental responsibility of companies large, medium and small, also known as CSR (or Sustainability) has gathered pace across the world. It has also accelerated right across the world and just about all major companies, in the West, publish social reports and measure their progress on satisfying their stakeholders.

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<sup>1</sup> Revised version of a speech given at an event in London on May 9<sup>th</sup> 2012 organized by International Alert and moderated by BBC presenter Zainab Badawi.

But there have been notable exclusions and many failures. One of the biggest in recent years has been the almost total lack of social responsibility of our financial organizations (not necessarily our banks)...with AIG, for instance, only now thinking about doing something on CSR, Lehman Brothers was only interested in Philanthropy as was Enron, believe it or not...and we know what happened to them! While the rating agencies such as Standard & Poors, and Fitch lamentably have nothing on their websites and seem to do whatever they wish without regarding the implications of their decisions – for instance downgrading US debt during the discussion over the US budget ceiling simply raised borrowing costs and lowered confidence. When what was (and is) needed in the US to re-invigorate its economy is greater confidence and greater spending to help unemployment. With interest rates low, creating debt is practically free. Standard and Poors simply raised the cost of debt while ignoring its impact on unemployment which remains stagnant.

Another major failure and strongly related to the topic of conflict, as President Eisenhower warned us in 1961, is the military-industrial complex. In his last speech, as President, he said *'In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.* Since the fall of the Berlin wall the hoped for peace dividend materialized only slightly as US defence expenditure fell from 6% of GDP in 1990 to 3.5% at the end of the Clinton administration but climbed rapidly to 6% again by the end of the Bush era in 2008...now standing at around \$US900 billion and dwarfing the amount of about \$150bn spent on education in 2012<sup>2</sup>.

In conflict situations of which there are far too many - Somalia, Syria, Congo, Yemen, Pakistan, Afghanistan, Iraq...the list seems to go on and on - the private sector has four options in conflict situations:

1. Deliberately create conflict to benefit themselves
2. Lobby to benefit from conflict
3. Actively reduce conflict to benefit themselves
4. Actively reduce conflict to enhance their own reputation even if not directly involved

Let's look in more detail.

### **Companies create conflict to benefit themselves**

One of the most brazen of all interventions by the private sector occurred sixty years ago, when BP was called the Anglo-Iranian Oil Company (AIOC). AIOC was complicit in helping and convincing the UK Government, with the help of the US, to overthrow the democratic Iranian Government of Mohammad Mosaddegh. BP was formed shortly after the coup. That coup led directly to the Iranian revolution of 1979, which launched an era of Middle East anti-Americanism whose repercussions have since been felt in deadly ways. The coup, led by the

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<sup>2</sup> [http://www.usgovernmentspending.com/us\\_defense\\_spending\\_30.html](http://www.usgovernmentspending.com/us_defense_spending_30.html), accessed 21 May 2012

CIA's Kermit Roosevelt, Theodore Roosevelt's grandson, was successful. The Shah, installed as leader, turned tyrannical, leading directly to the Iranian revolution of 1979. Arguably, BP was not responsible since it was mainly owned by the UK Government at that time and, given subsequent events, it is hard to imagine that BP would condone such behavior today...or would it? BP is very active in Azerbaijan and needs an acquiescent Government to profit there today<sup>3</sup>.

Chiquita too, no doubt contributed to conflict. In March 2007, the Cincinnati banana company stunned investors, employees and the local business community by admitting it made regular payments to Colombian paramilitary groups for 15 years, ending in 2004. It said it had no choice – the lives of its employees were at risk.

### **Companies benefit from conflict - Blackwater, now Xe, in Iraq/Afghanistan**

Do companies such as Xe or even Lockheed, General Dynamics or BAE encourage conflict to profit? They certainly lobby the US congress strongly to increase Defense expenditure which, in the USA, is much the same as it was at the end of the cold war. There is not much doubt that Eisenhower's military industrial complex (MIC) is still very powerful today. In his last speech as President Dwight Eisenhower's he warned the USA about the disastrous rise of misplaced power in the military industrial complex. He warned that defense spending levels and even the wars the USA would fight were disconnected from actual security needs. They were driven instead by the profit and power interests of the MIC who benefited from militarization and war.

Evidence, as compiled by the Minnesota Arms Spending Alternatives Project<sup>4</sup> found:

- In 2011, the defense Industry spent \$131 million lobbying Congress and devoted nearly \$23 million to congressional campaigns
- Lockheed Martin led the way—spending \$15 million on lobbying. This was a great investment as Lockheed received more than \$40 billion in defense contracts
- The top ten recipients of U.S. government contracts are all defense industries
- The U.S. Congress in 2012 devoted 59 cents of every dollar it appropriated (Congress controls the discretionary budget) to war or national security.

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<sup>3</sup> According Stephen Kinzer *All the King's Men* (2003, Wiley, New York), the former New York Times bureau chief, author of *All the Shah's Men: An American Coup and the Roots of Middle East Terror*, told the story of the Anglo-Iranian Oil Company's role in the 1953 CIA coup against Iran's popular progressive prime minister, Mohammad Mosaddegh. Kinzer states that 'At the beginning of the twentieth century, as a result of a corrupt deal with the old dying monarchy, one British company, owned mainly by the British government, had taken control of the entire Iranian oil industry. So, this one company had the exclusive rights to extract, refine, ship, and sell Iranian oil. And they paid Iran a very tiny amount. But essentially, the entire Iranian oil resource was owned by a company based in England and owned mainly by the British government'.

<sup>4</sup> <http://mnasap.org/news/18/82/Saint-Paul-City-Hall-Jack-Nelson-Pallmeyer-Speaks-on-Military-Spending-and-Corporate-Personhood.html>, accessed 15 July 2012

- There are front groups for defense contractors such as “The Coalition for the Common Defense” working tirelessly on behalf of industry to prevent cuts in military spending.

## Companies need to reduce conflict to operate normally

According to a private source, Shell estimates that around 80% of its costs are above ground. Certainly in Nigeria, Shell’s reputation has run aground due to perceived insouciance in local communities. In Somalia, Shell has several blocks where oil is suspected but they have not done any exploration as yet because of security issues. Many suspect that the increase in interest in Somalia is due to perceived availability of oil riches. The Guardian reported<sup>5</sup> that The Somali prime minister, Abdiweli Mohamed Ali, after meeting Hillary Clinton and David Cameron at the London Somalia Conference held in February 2012, said that in the future a share of natural resources would be offered in return for help with reconstruction. "There's room for everybody when this country gets back on its feet and is ready for investment," he said.

But the majors are keeping their powder dry. When I asked Shell if they would help to preserve the democratic Government in Somaliland<sup>6</sup> and thereby gain preferential access to various possible areas of oil exploration...there was a deafening silence.

## Companies reputation improves if they help to reduce conflict

Is there evidence for this...as asked in the title of the debate for which these thoughts were prepared? Certainly many companies now emphasize helping local communities and offer assistance in all sorts of development projects. They gain customers, for instance Coca Cola signs are everywhere in Africa and they gain from advertising. There is also some evidence that they gain reputation for helping local communities. Yet, as Warren Buffett once said, reputation takes 20 years to obtain and five minutes to lose – e.g. Apple using poorly paid labour to produce iPhones in China.

So which one of the above four is it to be? We can be cynical and say that our companies if left to themselves will become, as Terence Ratigan, a well-known Zeinab Badawi figure but on MSNBC in the USA states in the title of his latest book ‘Greedy Bastards’. There is plenty of evidence for that. But I am more positive, and the increasing move toward social responsibility, encouraged by NGOs such as International Alert, Social media and activist movements such as Occupy...will make companies much more careful in the future.

In Somalia (according to a World Bank study) The economic sectors which have benefited most from the absence of state regulation – financial services, telecommunications, and the commerce in consumer goods across national boundaries – have also profited the warlords and

<sup>5</sup> <http://www.guardian.co.uk/world/2012/feb/25/somalia-alshabaab-oil-west> accessed May 10 2012

<sup>6</sup> Although recent events show that even that previous island of stability is suffering from dictatorial tendencies of its President and his wife.

spoilers, and have not done much to develop Somalia's critical infrastructure (roads, power grid, water supplies). The latter can only attract private investment when a stable national government (or regional authority) with reliable security forces at its disposal is in place to ensure their maintenance and protection from extortionists or rent seekers.

So where next? I think we all agree that our economies must have a private sector. We know that we cannot regulate everything. Thus social responsibility of our industries is key for the future. For instance, when former UN secretary general Kofi Annan launched the UN-backed PRI on 27 April 2006, during the iconic opening bell ceremony at the New York Stock Exchange (NYSE), he was joined by executives from 11 institutions representing \$4 trillion in assets. These founding PRI signatories understood that global threats being addressed by the UN – such as climate change, resource depletion, ecosystem destruction and water scarcity – also have the potential to threaten their own investment returns. For these globally significant investors, the challenge is to make investments that do not, over time, undermine the value of their entire portfolio.

## Concluding remarks

International Alert has been very active in Corporate Responsibility and Peace-Building and in a paper commissioned by the Conflict Prevention and Reconstruction (CPR) Unit of International Alert<sup>7</sup> there is an interesting conclusion which reflects at least some of the above. They stated:

*Like development projects, international companies may contribute to either peace or war, but on their own will serve neither as the sole source of conflict nor the sole remedy. The most important questions are how to minimize the risk of causing harm, and how to maximize the social benefits of their activities.*

So, I believe (and an evidence-based belief) that the social responsibility of companies will increase as will their energy in working with Governments to reduce conflict. How? Some suggestions:

1. Work with the UN as a partner to reduce conflict by funding peaceful activities such as education (In 2002 the UN Compact published its *Business Guide to Conflict Impact Assessment and Risk Management in Zones of Conflict*.)
2. Use their knowledge to work with Governments to develop appropriate skills of the youth
3. Weapons manufacturers to work on fail-safe mechanisms to make their weapons harmless once their dirty deed is done.
4. Military, security and attack (defence?) industries to publish social reports that encompass all stakeholders

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<sup>7</sup> [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2005/03/30/000012009\\_20050330161732/Rendered/PDF/31819.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2005/03/30/000012009_20050330161732/Rendered/PDF/31819.pdf) accessed May 1 2012

5. Companies to work with Government to increase transparency of their security measures (eg drones)

## Notes:

**International Alert:** Most of the larger international companies now emphasize the importance of corporate social responsibility and this often includes charitable endeavors such as corporate sponsorships of education or health programs. Such initiatives are important in their own right, but companies' most significant social impact will come from the way that they conduct their core activities, and in particular from their relationships with local communities and sub-contractors.

International companies may be larger or smaller players in local commercial ecosystems. They may act as predators, or they may provide a catalyst to other companies and entrepreneurs. In the worst cases, companies can inadvertently fuel the structural causes of the conflict, undermining prospects for recovery. However, by presenting a vision of a different kind of future, where personal success comes from entrepreneurial initiative rather than military expertise, international companies and their local partners can help find a way out of cycles of deprivation and conflict. <http://www.international-alert.org/resources/publications/international-companies-and-post-conflict-reconstruction>

**Eisenhower:** This conjunction of an immense military establishment and a large arms industry is new in the American experience. The total influence -- economic, political, even spiritual -- is felt in every city, every State house, every office of the Federal government. We recognize the imperative need for this development. Yet we must not fail to comprehend its grave implications. Our toil, resources and livelihood are all involved; so is the very structure of our society. Last speech of Dwight D. Eisenhower, 1961.

**Stephen Kinzer:** According to a book by Stephen Kinzer, the former New York Times bureau chief, author of *All the Shah's Men: An American Coup and the Roots of Middle East Terror*, told the story of the Anglo-Iranian Oil Company's role in the 1953 CIA coup against Iran's popular progressive prime minister, Mohammad Mosaddegh. Kinzer states that 'At the beginning of the twentieth century, as a result of a corrupt deal with the old dying monarchy, one British company, owned mainly by the British government, had taken control of the entire Iranian oil industry. So, this one company had the exclusive rights to extract, refine, ship, and sell Iranian oil. And they paid Iran a very tiny amount. But essentially, the entire Iranian oil resource was owned by a company based in England and owned mainly by the British government'.

On January 20, 1953, Dwight D. Eisenhower took office as the 34th President of the United States, and the first Republican to be elected after twenty years of Democrat control. Along with the partisan shift, the White House retracted and reversed its policy towards Iran and its recent Nationalization of the Anglo-Iranian Oil Company (AIOC). Eisenhower's push for a coup d'état, instigated by the CIA and MI-6, stood in stark contrast with Truman's opposition to such policy. One should wonder: what changed?

One of the most pivotal moments in world and United States history came in 1953 when the CIA and British intelligence forces staged a coup in Iran, overthrowing the democratically elected Mohammed Mossadegh, a national Iranian hero who was named Time's Man of the Year in 1952. That coup led directly to the Iranian revolution of 1979, which launched an era of Middle East anti-Americanism whose repercussions have since been felt in deadly ways.

Mossadegh earned the adoration of his people and the scorn of Britain for nationalizing the Anglo-Iranian Oil Company, which controlled Iran's oil reserves, shared little of the revenue and kept its workers in slave-like conditions. Anglo-Iranian became British Petroleum.

BP's role in Iran's descent into tyranny is no trivial historical coincidence. To this day, it is not difficult to find an Iranian living in America who refuses to buy gas from BP.

There was one primary purpose of the coup that overthrew Mossadegh and installed the Shah: To reclaim BP's domination of Iranian oil.

The coup, led by the CIA's Kermit Roosevelt, TR's grandson, was successful. The Shah, installed as leader, turned tyrannical, leading directly to the Iranian revolution of 1979. Protesters carried placards of Mossadegh through the streets in the course of the overthrow and once triumphant, many members of Mossadegh's government were restored to positions of power. Within several years, however, the pluralist nature of the revolution receded and Ayatollah Khomeini tossed out the liberal element.

The coup shattered Iran's nascent democracy and taught Middle Eastern leaders that the West cared more for access to resources and stability than human rights and democracy. "We are not liberals like Allende and Mossadegh, whom the CIA can snuff out," said Ayatollah Ali Khamenei, who was a top aide to Khomeini during the revolution and is now supreme leader in Iran.

**UN Global Compact.** Greater awareness of the risk of 'doing harm' has increased interest in the concept of conflict impact assessment as a sub-category of social impact assessment. The UN Global Compact, which was formally launched by UN Secretary-General Kofi Annan in 2000, took up this theme in one of its first dialogues between the UN and representatives of the private sector. In 2002 the Compact published its *Business Guide to Conflict Impact Assessment and Risk Management in Zones of Conflict*. Meanwhile, researchers and NGOs have been taking this idea forward by developing new conflict impact assessment tools. For example, International Alert will soon publish both a Macro-level and Project-level Conflict Risk and Impact Assessment tool as part of its forthcoming *Conflict-Sensitive Business Practice Toolbox for Extractive Industries*.

**China?** Some argue (e.g. Simon Zadek) that China has made great progress in CSR, with the main companies publishing social reports and including standards as plentiful as in the West (but see a recent USA Today report on subterfuges used by Chinese companies to fool auditors).



Indeed, In recent years, multinationals from Adidas to Apple have stepped up their scrutiny of Chinese suppliers amid mounting public outcry about harsh working conditions, low wages and environmental pollution in the factories of the world. Apple recently commissioned an independent audit of the Chinese factories of one of its largest suppliers, Foxconn Technology Group, and found that workers there were underpaid and overworked. Auditors also found a document "that might have been used to prep workers" with answers, says Jorge Perez-Lopez, executive director of the Washington, D.C.-based Fair Labor Association, which conducted the investigation.

Apple said: "Apple is committed to ensuring the highest standards of social responsibility throughout our supply base. Apple requires suppliers to commit to our comprehensive supplier code of conduct as a condition of their contracts with us. We drive compliance with the code through a rigorous monitoring programme, including factory audits, corrective action plans and verification measures."