Profits to Peace

Dialogue Snapshot Report
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the Hollings Center
for international dialogue

Dialogue Summary

The Middle East and North Africa region urgently needs ethical and sustainable solutions for the plethora of challenges it faces, including the pressure of displaced populations, growing unemployment, armed conflict, environmental concerns, and lack of food or water security. Multiple previous Hollings Center dialogue programs have noted the important need for sustainable economic growth and diversification. Most notably, the 2014 dialogue *Corporate Social Responsibility (CSR) in Islam* discussed the role the private sector can play in avoiding politicization, fostering social cooperation, and improving social cohesion.

The private sector has an integral role to play in peace-building and reconstruction efforts. The behavior and practices of businesses can significantly impact environmental issues, health, education, labor rights and human rights. They can also act as a positive force to promote transparency and accountability, and move beyond the typical mandate of CSR. Sustainable, multi-dimensional business approaches and models are needed to deal with challenging global issues and to also ensure profitability both for businesses themselves and for the communities in which they operate.

To evaluate the role the private sector can play in the promotion of peace, the Hollings Center for International Dialogue hosted a three-day dialogue from 19-22 July in Dubai, UAE. The dialogue produced several notable conclusions:

- A strong case exists for businesses to engage in activity that promotes a positive peace paradigm. Evidence suggests that conflict is costly, and an environment that promotes human rights, sustainability, economic opportunity, and freedom can be highly profitable.

- To integrate positive peace practices into their business, companies need to align stakeholder groups, including businesses, governments, non-governmental organizations, and communities. Additionally, improvements are necessary in connecting small and medium enterprises (SMEs) and large multinational corporations (MNCs).

- Stakeholders appear to want the same outcome, but are communicating about how to achieve that outcome using different terminology and concepts. Terminology and context are extremely important in promoting positive peace and a good environment for business development. Getting these groups to communicate with one another better should be an important focus.

- Ethics, accountability and good governance should be actively supported by all groups. There are many actions that can be undertaken to improve business culture, such as reforms in business education curriculum. Likewise, consumers can play a role in holding businesses and states accountable for their actions.

- *Perceived* risks play a greater role in inhibiting investment in conflict-affected areas than *real* risks. Working to correct these perceptions can remove barriers to market entry and spurn increased investment.

Dialogue Snapshot Report: Profits to Peace

The Business Case for Peace

The case for business as a driver of peace is often met with skepticism by governments and non-governmental organizations, because private companies are seen in essence as profit-maximizing. Additionally, businesses owners, whether large or small, often do not see the impact they have on local communities, nor the inherent responsibilities those businesses have towards the communities in which they operate. However, there are enough examples globally where businesses have de-prioritized short term profit for more ethical, sustainable, socially, politically, and environmentally responsible goals. Indeed, multiple dialogues and meetings conducted by the Hollings Center have highlighted the importance of direct private sector involvement in creating more robust communities and economies. The 2014 dialogue on corporate social responsibility (CSR) noted the importance of corporate involvement in communities and stressed ethical behavior. A dialogue in 2015 looking at the connections between educational systems and the economy noted that fostering investment and promoting entrepreneurship can greatly improve local communities by tackling the regional challenges of underemployment and over-education.

Street market in San'a, Yemen (2015). Small and medium enterprises (SMEs) have a significant impact on the economy of the MENA region. Photo Credit: Rod Waddington

When making the case for business as a driver of peace, it is first important to consider the costs of conflict. As one participant noted, the cost of violence globally is approximately 13% of global GDP. The lost economic potential alone, particularly in the MENA region, makes a strong case for peace advocacy. Another participant stated, "It is important to show [businesses] that there is much more profit to be made by advocating peace. The net impact of conflict and war is devastating, painful, and costly. Our interests as peace advocates are totally consistent with the success of business. We want profits in the service of building better societies." Other participants highlighted the potential for monetary and social profit. One said, "A $1 investment in small and medium enterprises (SMEs) generates $12 in economic output in local communities. Employing just five people can have a ripple effect."

When advocating for business as a force for peace, it is important to make the distinction about what kind of peace is being sought. Participants highlighted the distinction between positive and negative peace paradigms. A negative peace paradigm by definition means simply the absence of violence. It looks at peace only through the lens of hard security and the steps necessary to suspend violent conflict. Positive peace, on the other hand, implies a more active and sustainable approach that looks beyond cessation of violence and incorporates concepts like human security, good governance, and ethics. This concept is sometimes synonymous with sustainable development. As many participants concluded, the better path forward is a positive paradigm, which aims to create an "arch of peace" that encompasses freedom and human rights while promoting economic opportunity. Building this arch requires new thinking on the

meaning of peace, an alignment of the stakeholders, support for ethical and good governance standards, and better risk mitigation strategies.

Aligning the Stakeholders

"Businesses want to be practical and successful… It is important to show them there is much more profit to be made by advocating peace."

- Conference Participant

Participants agreed on the importance of stakeholder engagement and alignment. For the purposes of this dialogue, the stakeholders discussed included community representatives, companies (both multinational and SMEs), governments, and non-governmental organizations (NGOs). Connecting all of these stakeholding groups in meaningful ways will be a challenge, requiring patience and time. Further complicating matters, the region also deals with state instability and non-functioning markets. Chaotic economic environments result in creating a disincentive for businesses to pursue a positive peace paradigm.

At the root of the problem, some participants noted, is the existence of a trust gap between the sectors and stakeholders operating in these conflict-affected environments. Bad behavior such as exploitation or extortion on the part of just a few stakeholders holds the potential to spoil popular trust and confidence in entire industries. Participants stressed however that the private sector, particularly improved relationships between MNCs and SMEs, can play a significant role in bridging this trust gap. One stated citing a local survey, "One interesting finding is the private sector can actually be the ones to help build trust in the local communities by investing in their local businesses." A significant effort at building local goodwill is required.

Better communications between stakeholders could bridge this gap. Even though the end goal of a more peaceful and prosperous community is shared by all involved, too often stakeholders have been unable to communicate these intentions effectively due to a lack of common terminology, definitions, or shared experiences. Even at this dialogue, where representatives from different sectors all shared the same belief and end goal of utilizing business in the cause of peace, sometimes communication proved challenging. As one participant said, "We're all operating in our own ecosystem and we're limited in what we see." Definitions are held in the eyes of the beholders, and one participant warned that terminology alone can lead to inter-sector disengagement. While a term like "social impact fund" may be a common concept in the NGO community, a local SME or government may not understand what that means.

To increase engagement among stakeholders, participants recommended better effort, especially on the part of multinational companies, to understand local contexts. If multinationals have prior information before entering a country or a market about potential minefields and sensitivities, as well as prospects, there will be better opportunities for the MNCs to build synergies with SMEs. MNCs can supply the SME with investment and opportunity, while the MNC gains local buy-in and improved supply chains. Better contextual understanding can also adapt international standards to local situations. This in turn would make governments more adaptive, assist in getting the cooperation of nongovernmental groups, and explain the benefits of private enterprise to communities.

To further promote this, some participants called for the creation of regional business coalitions. These coalitions would include MNCs, SMEs, and investors, and act as a center for excellence for sharing information. Such a coalition would devise and apply proper standards, create opportunities for businesses to connect throughout the region, and work actively to address

stakeholder communication problems. Such coalitions would be grounded by a firm mission statement, one which would promote business development and positive peace.

Supporting Governance, Ethics, and Accountability

Creating an environment where businesses can foster positive peace by promoting ethical behavior, good governance, and accountability requires more than a surface-level or purely public relations approach. As one participant commented, ethics in business is something that needs to come from within. "It is not necessarily something that can be 'integrated.' Socially responsible and ethical practices need to be a part of all business operations." So, in instances when ethics are not present, or in environments where there may be more incentives to act unethically, how can ethics be holistically implemented?

200 Egyptian Pound note (2007). Stakeholders want increased foreign direct investment (FDI), but without improvements to accountability and better risk management strategies, FDI can be difficult to attain. Photo: Wikimedia Commons

To start, companies need to realize that engaging in ethical and accountable behavior does not put a company at a competitive disadvantage. To the contrary, it can actually put an enterprise in a more advantageous position in the communities in which it operates. It starts with strong leadership that promotes a positive business culture. A participant cited the example of a large, established energy company whose CEO publicly announced that they would not pay bribes to a local government in order to operate. Rather than cede that market to a competitor, it instead enhanced that company's leverage in negotiations. Such leadership should be promoted as examples to follow. Furthermore, it is important for leadership to remain diligent in applying and enforcing ethical standards. One participant warned that particularly in the case of multinational companies, corporate size, distance, and the slightest lack of attention can result in a breakdown of standards. It is the responsibility of leadership to monitor and conduct due diligence in all aspects of corporate operation. Furthermore, members of corporate boards and the shareholders are also responsible for ensuring adherence to good corporate governance. People can empower companies to change their practices.

Creating a positive business culture is a challenge that dialogue participants spent significant time discussing. Improving business culture at large was seen by some as the key to creating and supporting ethical and accountable environments. Participants had many suggestions to shift business culture in a direction that would promote positive peace-building efforts. They suggested that NGOs, governments, and the general public engage businesses collectively. "Engaging business in collective action is easier than engaging businesses one-by-one. Once there's a critical mass, nobody [in business] wants to be left out." Furthermore, collective action can amplify successful models and make unethical behaviors costlier. Business culture is largely changed "by what is punished and rewarded," said one. Watchdogs can expose the companies engaging in "hit and run" or exploitative behavior. For the long term, participants advocated for a change in business education. Too often, the curriculum is myopically focused on maximizing profit or "shareholder value," while ethics and accountability classes (if even offered) are elective. It is necessary for educators to promote these changes within business schools and to incorporate broader standards from the start.

The need for improvement in ethical and accountable behavior is not limited to the business. It needs to be applied to governments on both the state and municipal levels as well. As one participant commented, accountability needs to go both ways. "It is difficult to engage in dialogue when we are encountering states that do not see themselves as accountable." Legal frameworks are subpar or not enforced. Participants cited corruption as the most common limiting factor for market entry and business growth. Participants concluded that the nature of the state itself can be the largest indicator of economic and peace-building potential. The state's nature also provides indication on which business sector could have the greatest impact in creating a positive peace environment and instigating change.

A participant group tasked with addressing the issue of corruption and unethical behavior called for several initiatives that would help to move these issues in a more positive direction. They called for awareness raising campaigns for consumers, so that more informed and sustainable purchasing decisions could be made. They suggested creating ratings agencies and "integrity seals" to assist in responsible consumption. They further called for the development of awareness campaigns for the judiciary. And for instances where a local justice system cannot be relied upon, they suggested utilizing the legal systems in the home countries of MNCs. The group also pushed for more dialogues and trainings.

Mitigating and Managing Risks

Warehouse destroyed by conflict in 2009. Photo Credit: United Nations

In many of the examples discussed during the dialogue, it became clear that both multi-national companies and small and medium enterprises are dealing with varying degrees of non-functioning markets throughout the MENA region. In some countries, the barriers to market entry are significant, and the risks associated with operation have deterred business development. In other countries, state bureaucracies and legal structures pose significant challenges for companies. Corruption was cited as one of the biggest risks for corporations wishing to operate. There can be state-owned monopolies, patronage networks, and cases of outright nepotism that disincentivize investment. For MNCs, the inability to protect their investments causes many to simply bypass these markets. For those that do enter, the environment creates short-term opportunities at best and at worst "hit and run" companies that come in, exploit breaks, extract resources, make profit, then leave.

In areas in conflict or post-conflict, businesses seeking entry into the market face challenges caused by entrenched war economies. In areas where rule of law or legal frameworks are lacking, enablers of ethical business behavior are often blocked out. For those businesses that do engage in these economies, many develop reliance on illegitimate means, such as bribery. In other cases, there are financial infrastructure barriers, such as lack of banks, sanction regimes, and informal payment systems. These systems tend to enable poor financial management and illegal or illegitimate activity. This lack of financial infrastructure further creates a disincentive for equity financing with SMEs relying more on debt financing and aid. This in turn furthers dependency on broken systems and creates cycles of failure.

For businesses wishing to enter non-functioning markets and make those markets more functional, the risk calculus is always a determining factor. As one participant noted, "When rule of law isn't there, your investment is at risk. Non-financial risks have become a part of the investment and corporate framework." The challenge for many companies lies in collecting local information and context to accurately report these risks. This in turn leads to multi-national companies favoring investment decisions that would permit rapid liquidity, and without a long-term approach as a result, companies are less likely to engage in a manner that promotes positive peace.

Detecting and analyzing these risks are an important factor for businesses entering any market, particularly those that are publicly owned and therefore hold a fiduciary responsibility to the shareholders. But, there is a difference between real risks and perceived risks, and in many cases, it is the perceived risks that can act as the biggest barriers. "For real risks, you can manage, mitigate, use insurance mechanisms, and reduce collateral costs. It's really the perceived risks, the red flags which can only be addressed by bridging the information and connection gaps that are the problem." Participants suggested multiple means to address both perceived and real risks. They suggested the introduction of certain financial instruments, such as social impact bonds and investment pools that could help deter financial risks. They further called for better screening processes that could be implemented by companies, NGOs, and even governments that could identify worthy investments. Governments can engage in better public relations campaigns that rectify incorrect perceptions about the state of doing business in their countries.

Sometimes, it is not just about mitigating risk, but also increasing the desirability of investment. Often only slight changes are necessary. One participant highlighted a recent example from Lebanon. Several years ago, the government released Circular 331, a three-page document of simple changes for financing and regulation of startup companies, which in turn greatly opened up government-backed capital and changed the ecosystem for accelerators and incubator funds. This in turn increased the number of social enterprises operating in the country.

Positive Direction

In spite of the significant challenges facing the concept of business as a driver for positive peace, participants remained optimistic throughout the dialogue that this concept would eventually become the norm. The challenge will remain in implementation, something that will require understanding of context beyond any basic application. Signs already exist within multinational corporations of better understanding of local context and impact. Participants noted how the advent of social media created new tools of consumer empowerment, coordination, and accountability. New risk mitigation strategies are also being developed. As one participant elaborated, it is impressive to see how business culture changes over time and how concepts once considered novel, like CSR, have become far more commonplace in a little over a decade. Business as a driver of a positive peace paradigm could also take a similar path.

> "The private sector can actually be the ones to help build trust in the communities."
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> - Conference Participant

For More Information

Reports

Corporate Social Responsibility in Islam
As corporate social responsibility (CSR) becomes widespread practice around the world, there are many questions surrounding its implementation in Muslim-majority nations. How has CSR evolved in different Muslim-majority nations and throughout the world? This dialogue brought together business leaders, CSR practitioners, scholars, and journalists to discuss the growth and impact of CSR activities throughout Muslim-majority nations and to create a forum for the exchange of best practices.

Bridging the Disconnect between Education and the Economy
The higher education systems do and will play a large role in the economic development of countries. And as such, the disconnection between higher education and the economy is a critical problem to address across the board. To discuss these concerns and generate ideas for resolving the gap, the Hollings Center convened a dialogue conference in February, 2015 that brought together academics, higher education professionals, economists, private sector representatives, and policy makers to analyze the prospects for cooperation in addressing concerns.

Videos

Engagement of Business Stakeholders for Peace
Charlotte Karam of the American University of Beirut discusses the strategies used to bring together business stakeholders for the promotion of peace.

Attracting Investment in Areas Affected by Conflict
Donata Garrasi of Europe Conflict and Security (ECAS) Consulting outlines what needs to happen for business to invest in conflict and post-conflict areas.

The Role of Private Enterprise in Contributing to Peace
Robert E. McNulty of PRME Business for Peace Working Group and Bentley University discusses the potential of private enterprise in improving social issues and contributing to peace.