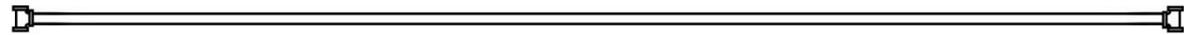


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Hrsg. von Prof. Dr. Susanne Lütz



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### Corporate Social Responsibility in Zones of Conflict



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Sarah Reiper

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## Abstract

Departing from the previous focus on negative involvements of business in the political economy of war and its role in fuelling or causing conflict, transnational corporations are increasingly expected to contribute to conflict prevention, crisis management and post-conflict peace building. This paper analyzes under which conditions transnational corporations contribute to peace and security in zones of conflict. The question is explored in the framework of a comparative case study of Shell's engagement in Nigeria and BP's engagement in Azerbaijan. It is argued that transnational civil society activism, company and production characteristics and the role of the host state are crucial determinants of corporate engagement towards peace and security.

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## ACRONYMS AND ABBREVIATIONS

ACG	Azeri-Chirag-Deepwater Gunashli
AIOC	Azerbaijan International Operating Company
BP	BP plc
BTI	Bertelsmann Transformation Index
CSCE	Conference on Security and Co-operation in Europe.
CSR	Corporate social responsibility
EBRD	European Bank for Reconstruction and Development
EITI	Extractive Industries Transparency Initiative
GDP	Gross domestic product
GMoU	Global Memorandum of Understanding
IYC	Ijaw Youth Council
MEND	Movement for the Emancipation of the Niger Delta
MOSOP	Movement for the Survival of the Ogoni People
NEITI	Nigerian Extractive Industries Transparency Initiative
NGO	Non-governmental organization
NNPC	Nigerian National Petroleum Corporation
OSCE	Organization for Security and Co-operation in Europe
PSMC	Private security and military company
RUF	Revolutionary United Front
SCP	South Caucasus Pipeline
Shell	Royal Dutch Shell plc
SOCAR	State Oil Company of the Azerbaijan Republic
SOFAZ	State Oil Fund of Azerbaijan
SPDC	Shell Petroleum Development Company of Nigeria
TNC	Transnational corporation
UK	United Kingdom
UNCTAD	United Nations Conference on Development and Trade

UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organization
USA	United States of America
VP	Voluntary Principles on Security and Human Rights

# 1. INTRODUCTION

The recent attack on a BP plc (BP) oil installation in Algeria in January 2013 tragically demonstrates that corporations increasingly operate in conflict-ridden and fragile environments (Ganson/Wennmann 2012: 2). In such contexts, corporations rarely remain a neutral bystander, even when they operate in remote areas such as the Algerian desert. They become involved in conflict zones, often as a driver or target of violence. Since the end of the 1990s, the private sector, especially transnational corporations (TNCs)<sup>1</sup>, has received widespread attention for its involvement in the political economy of war and its role in fuelling or causing conflict. TNCs have contributed to violent conflict in different forms, be it by financing war parties, supporting repressive regimes, trading conflict goods or hiring aggressive private security forces (Banfield et al. 2003; Renner 2002; Watts 2005). In the recent past, however, TNCs have also become involved in conflict zones as agents of peace. Corporations like the South African diamond company De Beers, formerly known for its involvement in the trade of “conflict diamonds”, have participated in global initiatives to prevent or mitigate conflict, such as the Voluntary Principles on Security and Human Rights (VPs) and the Kimberley Process Certification Scheme. Moreover, TNCs increasingly include conflict prevention provisions in unilateral corporate social responsibility (CSR) schemes.

## 1.1 Research question and relevance

The purpose of this thesis is to analyze the conditions under which TNCs contribute to peace and security in zones of conflict. Accordingly, the research question is: *Under which conditions do TNCs contribute to peace and security in zones of conflict?* Through this focus, the thesis seeks to provide a better understanding of corporate engagement in conflict zones. It is further assumed that a comprehensive understanding of the necessary and sufficient conditions of corporate engagement towards peace and security is essential in determining possible policy interventions that promote corporate contributions towards peace rather than conflict. More generally, the thesis aims to contribute to the wider discussion on global governance. As peace and security are generally perceived as a core responsibility of the state, they represent a “hard case” for governance with and without government. The insights gained on the conditions for corporate engagement in peace and security can thus prove applicable for other policy fields. Rooted in the CSR and global governance discussion, this thesis presumes that corporations can make valuable contributions to governance and, in particular, to peace and security under specific circumstances. While this focus has normative implications, the interest of this thesis is primarily analytical.

## 1.2 State of the art

There is a growing body of literature on business in violent conflict among which a large number of scholars focuses on the adverse effects TNCs have on conflict (e.g. Hook/Ganguly 2000; Swanson 2002). However, an emerging strand of literature now investigates potential contributions of corporations, specifically TNCs, to peace and security (Banfield et al. 2003; Ballentine/Nitzschke 2005b; Deitelhoff/Wolf 2010b; Wenger/Möckli 2003). While they lack a comprehensive theoretical approach and systematic (comparative) case studies (Wolf et al. 2007: 297-298), scholars have identified different factors for TNC contributions to peace and security. In empirical case studies, Deitelhoff and Wolf (2010b) find

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<sup>1</sup> TNCs are defined as „incorporated or unincorporated enterprises comprising parent enterprises and their foreign affiliates. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake” (UNCTAD 2012: n.p.).

company, production and conflict characteristics, as well as political and social environments in home and host states relevant explanatory variables. Specifically, case studies have isolated factors such as reputation sensitivity, pressure from civil society, home state engagement and host state capacity and willingness to implement regulations and provide public goods (Feil 2012; Wallbott 2010; Zimmer 2010). Conflict characteristics such proximity of violence, however, remain largely unexplored.

In addition to the literature on the role of business in conflict, a growing body of literature on CSR and global governance in general provides valuable insights on the rationale and behavior of TNCs. Most research on corporate behavior has applied a rationalist framework. According to this approach, cost-benefit calculations are the main drivers of action. Recent publications have argued, for example, that TNCs engage in CSR or global governance because they want to avoid regulation or gain competitive advantage on the market (Haufler 2001a; Vogel 2005). Furthermore, publications have highlighted the role of non-governmental organizations (NGOs) and consumer pressure, inducing both material and social costs (e.g. Spar/La Mure 2003). In the recent past, however, alternative approaches to TNC engagement originating from constructivist thinking have gained prominence. Scholars suggest that corporations are guided by social norms (Haufler 1999; Hofferberth et al. 2011; Rieth/Zimmer 2004a). In this vein, CSR policies are a result of new norms that redefine appropriate behavior for corporations with regard to social and environmental standards (Hofferberth et al. 2011: 215).

### 1.3 Design and methodology

The above mentioned research question is pursued in a comparative case study of two cases from the oil industry, namely Royal Dutch Shell plc's (Shell) engagement in Nigeria and BP's engagement in Azerbaijan. The design was chosen to account for the complexity of causal mechanisms and interaction effects. In zones of violent conflict, TNCs are subjected to complex local dynamics. At the same time, TNCs compete on global markets and engage with international stakeholders. An explanation of TNC engagement in such environments requires a qualitative, in-depth analysis. Moreover, the comparative design was selected to increase the number of observations (Hall 2003: 397; King et al. 1994: 217-218). The approach taken in this thesis is inspired by Stuart Mill's "method of agreement" (Mill [1884]: 221-223).<sup>2</sup> Two cases with similar outcomes but different contexts are analyzed. While a selection on the dependent variable generally runs the risk of selection bias (King et al. 1994: 129-137), it can "serve the heuristic purpose of identifying the potential causal paths and variables leading to the dependent variable of interest" (George/Bennett 2005: 23) in emerging research areas like the above. In addition, such an approach can prove instrumental in evaluating necessary conditions (Dion 1998).

The case study is structured by several hypotheses developed on the basis of the literature review on business and conflict as well as CSR and global governance in general. Considering the early stage of research on the subject and the lack of a comprehensive theoretical framework, the hypotheses serve as a guiding tool in the empirical analysis of causal mechanisms rather than a theory test. In addition, the case study pursues an inductive approach. The thesis is based on a thorough review of secondary literature on business in conflict, CSR, global governance and peace and conflict studies. Empirical findings in both cases are based on secondary literature, where available, as well as primary sources and "grey literature" from companies and their project partners, non-governmental and international and national governmental institutions as well as the media.

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<sup>2</sup> This approach is often referred to as "most different" design. However, as George and Bennett (2005: 165) point out, Mill's approach originates from a comparison of the dependent variable while Przeworski's and Teune's "most different" design focuses on the independent variables.

## 1.4 Hypotheses and variables

Based on the debate on business and conflict as well as CSR and global governance in general, several hypotheses are developed. The thesis accords particular interest to the role of stakeholders, such as governments, NGOs and communities, in shaping TNC engagement. It is expected that the dynamics of local actors play a significant role for TNC engagement in zones of violent conflict. Due to their transnational nature, TNCs are also part of international arenas that influence their actions. International stakeholders are therefore another focus of the analysis. The following hypotheses are put forward for subsequent testing and analysis:

*H1: Transnational civil society activism around security- and conflict-related issues directed at a company leads to corporate engagement towards peace and security in zones of conflict.*

*H2: Medium host state capacity to implement governance unilaterally coupled with host state willingness to provide peace and security leads to corporate engagement towards peace and security.*

The influence of the conflict environment is another focus of the analysis. Based on Feil (2012) and Deitelhoff and Wolf (2010b), the following hypothesis is developed:

*H3: Conflict proximity leads to corporate engagement towards peace and security.*

The dependent variable to be analyzed is the engagement of TNCs with regard to peace and security in zones of conflict.<sup>3</sup> Engagement comprises both commitments (output) and behavior (outcome) (Wolf et al. 2007: 296). According to Wolf et al. (2007: 304), TNCs can actively contribute to peace and security, withdraw from a conflict zone, conduct “business as usual” or take advantage of the lack of public regulation in zones of violent conflict. The possible values of the dependent variable, therefore, comprise active contributions to peace and security, “business as usual”, withdrawal and taking advantage of public regulation gaps. The specific research interest of this thesis lies in corporate contributions to peace and security. In line with the definition of the dependent variable, corporate contributions to peace and security are only observed on the output and outcome dimension. The impact dimension is not considered here as it poses great analytical hurdles, such as multi-causality and counterfactual reasoning (Deitelhoff/Wolf 2010a: 14). Based on Deitelhoff and Wolf (2010b), corporate contributions to peace and security are considered as governance, defined here as “the various institutionalized modes of social coordination to produce and implement collectively binding rules, or to provide collective goods“ (Börzel/Risse 2010: 114). Furthermore, they are characterized as voluntary initiatives and, therefore, constitute a part of CSR. These voluntary governance contributions directly or indirectly address peace and security in a narrow sense. Corporations, therefore, contribute to the prevention, mitigation or resolution of conflicts (Feil 2012: 7-8). Direct contributions to peace and security include, for instance, the provision of security to a broader community surrounding a company’s operations. Indirect contributions address peace and security through other policy fields, for example through policies that are relevant to the root causes of conflicts and de-escalation, or conflict-sensitive policies.

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<sup>3</sup> Conflict zones are broadly defined as geographical areas that are “in, emerging from or at risk of violent conflict” (Banfield et al. 2003: 15).

Independent variables of the analysis comprise transnational civil society activism around security- and conflict-related issues (H1), the host state capacity to implement governance unilaterally coupled with willingness to provide peace and security (H2) and the proximity of violence (H3). Indicators are discussed in the next chapter.

## 1.5 Outline

Following the introduction, the second section of the thesis provides an overview of research on business in zones of conflict. It begins with the context of “new wars” and “resource conflicts” and continues with the negative involvement of business in conflict. Before focusing on corporate contributions to peace and security, the section introduces global governance and CSR as a theoretical background. Then, potential factors for corporate engagement towards peace and security are analyzed by drawing on literature from business and conflict, CSR and global governance. In section three, the comparative case study on Shell’s engagement in the Niger Delta conflict and BP’s engagement in Azerbaijan is presented. In both cases, an overview of the conflict and the company provides the background information for the subsequent analysis of the companies’ engagement in the conflict environment and for the identification of factors explaining the companies’ contributions to peace and security. In addition, the hypotheses are tested. The next section discusses and compares the empirical findings, while the final section provides a conclusion to the research question and offers an outlook on future research and practical relevance.

## 2. BUSINESS IN ZONES OF CONFLICT

The role of business in conflict has only recently received attention in academic and policy circles. While research has previously focused on the link between business and conflict, an emerging strand of literature investigates the potential contributions of business to peace and security. The following sections review the existing research linking business to conflict and peace and, more generally, research on the shifting roles of business in order to contextualize and conceptualize corporate engagement towards peace and security and identify potential explanations.

### 2.1 Linking business to conflict

This section introduces the economic dimensions of violent conflict as a context for business operations. This serves to underline the relevance of corporate engagements towards peace and security. Moreover, the identification of mechanisms linking business to conflict offers points of departure for potential contributions to peace and security.

#### 2.1.1 Economic dimensions of conflict

Much of the literature on business roles in conflict zones departs from the economic dimensions of contemporary conflict (e.g. Ballentine/Haufler 2005; Shankleman 2006). Since the end of the Cold War, a number of scholars have argued that the nature of violent conflict has changed significantly (Kaldor 1999; Münkler 2002). The emerging “new wars” differ from “old wars” with regard to their goals, financing mechanisms and methods of warfare (Kaldor 1999: 6). Arguments include that contemporary conflicts are predominantly intrastate, rather than interstate; characterized by state failure; and fought over ethnicity and religion (Newman 2004: 174-175). Moreover, economic dimensions are highlighted as key features of violent conflict, for example, in the form of globalized war economies or economic incentives for

violence. In the political economy of violent conflict, globalization is considered a crucial component. For the global South, market liberalization and deregulation have been accompanied by a weakening of state authority (Duffield 2000: 72; Jung 2003: 2) that gives rise to a privatization of violence (Kaldor 1999: 92). The lack of state authority leaves a variety of public and private actors to compete over control (Newman 2004: 176). According to Kaldor (1999: 92), “the new wars are characterized by a multiplicity of types of fighting units both public and private, state and non-state, or some kind of mixture”. To fund their operations, the different types of combatants rely largely on global networks. While looting, robbery and extortion of the local population remain persistent in the majority of contemporary conflicts (Kaldor 1999: 102), combatants increasingly finance their activities through regional and global illicit trade, diaspora networks, or assistance from foreign governments (Collier/Hoeffler 2004; Duffield 2000; Kaldor 1999). Essentially, Duffield (2000) argues, globalization has facilitated the establishment and maintenance of war economies. Much of the literature argues that these war economies are not an expression of chaos, but follow a particular (economic) logic. Keen (1998: 11) suggests that “[w]ar is not simply a breakdown in a particular system, but a way of creating an alternative system of profit, power and even protection”. Natural resources have taken a prominent role in the literature on the economic dimensions of violent conflict. Scholars find that high-value, finite natural resources present financial opportunities for rebels and, therefore, fuel or prolong civil wars (e.g. Collier/Hoeffler 2004; Collier et al. 2004). The pillage and global trade of diamonds in the Sierra Leone civil war by the rebel group Revolutionary United Front (RUF) serves as a prominent example (e.g. Renner 2002). Furthermore, it is argued that natural resources present a motive for violence (Berdal/Keen 1997; Collier 2000). Rebels “initiate violence not necessarily to overthrow a government, but to gain and maintain control over lucrative resources” (Renner 2002: 7). This train of thought has provoked an intense debate (e.g. Ballentine/Sherman 2003). Scholars criticize that the link between natural resources and violent conflict is not necessarily direct, but rather mediated by the adverse effects of natural resource wealth on socioeconomic development and political institutions and dependent on other conditions (Basedau 2005; Humphreys 2005). Literature on the “resource curse” describes detrimental effects of resource dependence on the economy and political institutions in detail. On the one hand, resource wealth is associated with poor economic growth (Auty 2001; Sachs/Warner 1995) and the negative economic effects of the “Dutch Disease” (Corden/Neary 1982). On the other hand, resource rich countries are often rentier states, characterized by corruption, patronage and autocracy (Jensen/Wantchekon 2004; Yates 1996). These conditions are a source of conflict and create “permissive causes of violence and armed conflict” (Ballentine/Nitzschke 2005a: 3). Business actors in zones of conflict are part of the different economic dimensions of conflict in varying degrees, be it by sustaining globalized war economies or contributing to the “resource curse”. Often they are involved in fuelling conflict directly or indirectly. The following section explores the different mechanisms linking business, notably TNCs, with conflict.

### 2.1.2 Links between business and conflict

In the debate on the economic dimensions of violent conflict, the role of business actors has received increasing attention. Investigations by NGOs have turned the spotlight on the involvement of business actors in violent conflict by exposing corporate entanglements with war economies in Angola and Sierra Leone (Global Witness 1998; 1999; Smillie et al. 2000). The reports revealed, for instance, that the diamond company De Beers contributed to financing a brutal civil war by buying Angolan rough diamonds originating from rebel-controlled zones during the 1990s. Following a United Nations Security Council embargo on “unofficial” diamonds from Angola in 1998, diamonds were also smuggled out of the

country and sold illegally to Europe and other destinations (Global Witness 1998). This is only one of many examples of business involvement in violent conflicts, demonstrating in this case the interaction between local and global, as well as legal and illegal business spheres highlighted by the research on the economic dimensions of violent conflict.

The various mechanisms linking business actors to conflict can be categorized along different types of business activities. A first distinction can be made “between companies whose legitimate business activities have negative but unintended effects on conflict dynamics, and those commercial actors [...] who deliberately seek to profit from war by conducting the – often illicit and always predatory – business of war” (Ballentine/Nitzschke 2004: 38). The latter type of business typically comprises the illegal sector of the global economy involved in money laundering and arms, drugs and human trafficking. Middlemen and brokers, such as the arms dealer Leonid Minin, contribute to conflicts by supplying governments or rebels in zones of conflict with weapons and other military equipment through illegal channels, sometimes in return for illicit goods, such as diamonds (Lallemand 2002; Van Niekerk 2002). Moreover, middlemen are key figures in facilitating the illegal trade with conflict commodities and drugs as in the civil wars of Sierra Leone and Colombia (Renner 2002). While they regularly cross “between the secretive worlds of war commerce, organized crime and terrorism” (Van Niekerk 2002: n.p.), they also maintain relations with the legal political and economic sphere. Other business actors seeking to profit from violent environments are “rogue companies”. They are usually small but often internationally operating companies that use conflict situations to cover up their operations or actively supply combatants (Taylor 2002). Their operations are often illegal, but in many cases they do not technically violate existing laws. As legitimate companies generally prefer stable operating environments, they are rarely associated with this type of business. However, there have been cases where otherwise legitimate companies have deliberately taken advantage of violent environments (Ballentine/Nitzschke 2004: 39).<sup>4</sup>

The involvement of private security and military companies (PSMCs) in zones of conflict is a special case in point. Their business is generally legitimate but relates directly to war. PSMCs offer security services to public and private actors on the global market, from logistics, intelligence and training to combat. Since the end of the Cold War, the demand for PSMCs has increased steadily (Deitelhoff 2010: 179-180). Their role in conflict, however, remains ambivalent. While the provision of security constitutes the core business of PSMCs, they are also linked to war economies (Ganser 2004: 67).

Aside from few exceptions and corporations whose business relates directly to war, legitimate business is generally linked to conflict through negative, but unintended effects. While there are various mechanisms through which local businesses can have negative, unintended effects on conflicts (e.g. International Alert 2006: 25-26), the interest of this thesis lies with TNCs. Within the business-and-conflict agenda, TNCs were identified as a culprit and received widespread attention (Haufler 2010: 118). TNCs can contribute to conflicts at the micro level through their impact on local relationships or at the macro level through their impact on the economic, political and natural environments of the host state (Banfield et al. 2003: 18). Both levels are interconnected, and cannot be entirely separated. At the macro level, TNCs can fuel conflicts by supporting repressive governments through taxes and royalty payments (Taylor 2002: 33-34). When TNCs contribute to existing practices of corruption and bribery, they can further “reinforce the existing distribution of power and undermine the legitimacy of government” (Banfield et al. 2003: 21). Unequal distribution of benefits from foreign investment can become another source of grievance that

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<sup>4</sup> Legitimate businesses are those businesses „that are not criminal enterprises and that generally operate within the bounds of law“ (Haufler 2001b: 660). However, the distinction between legitimate and illegitimate businesses cannot always be clearly drawn.

fuels conflicts (Banfield et al. 2003: 21, 23). The impact of TNC engagement on conflict at the macro level is multifaceted and complex. The boundaries between the responsibilities of state and corporations are sometimes blurred, especially when TNCs operate in undemocratic and non-functioning regulatory environments.

At the micro level, corporate impacts on conflicts are more easily observed. Different corporate behavior has been identified to generate or fuel conflict at the local level. First, the operations of TNCs, especially in the extractive industries, can lead to environmental degradation and pollution of land and water. As a consequence, local communities are often faced with health problems, the destruction of their livelihoods and unemployment while benefits accrue mostly to elites (Renner 2002: 39-47). The lack of sufficient compensation on the part of TNCs can create additional grievances. Second, TNCs can give rise to conflict through their relationship with employees. Poor working conditions, human rights violations, or preferential employment of certain groups can provoke major disputes and reinforce existing conflicts (Banfield et al. 2003: 19). Third, TNC behavior is associated with conflict over land and resource access. Communities are sometimes relocated so that companies can build, expand and maintain their operations. Indigenous peoples, whose land rights are not formally recognized, are particularly affected from this practice (USAID 2004: 4). Conflicts can arise directly over the right or access to this land or insufficient compensation and community participation. Fourth, community relations can present a source of conflict, for instance, when TNCs cooperate with local elites or certain groups to the detriment of others (Banfield et al. 2003: 20). Finally, TNCs have been accused of severe human rights violations. When confronted with local resistance and conflict, TNCs often hire private or state security forces to protect both staff and company facilities. On various accounts, both private and public security forces guarding company premises have applied excessive force to suppress protests from local communities or workers (e.g. Beder 2002; Human Rights Watch 1999). Indeed, companies were also involved in killings of protesters. Thanks to NGO activism and media publicity, the involvement of business in conflict received substantial attention beyond the scientific community. Against this background, a growing focus on corporate contributions to peace in zones of conflict has emerged. The international community has launched initiatives to curtail illegitimate business in conflict zones and increasingly expects legitimate business, notably TNCs, to actively contribute to peace.

## 2.2 The shifting role of business and concepts of social engagement

The discussion of business links with conflict reveals that corporations have negative effects on their immediate and wider operating environments. This applies not only to conflict and security issues but extends to other policy areas. The private sector has contributed to environmental degradation, corruption, poor working conditions and, most recently, the current global financial crisis (Watts 2005; Wolf/Schwindenhammer 2011: 10-11). These practices have provoked harsh criticism and fuelled fears of corporate domination (e.g. Korten 2001). At the same time, “the international community increasingly appears to view corporations as powerful partners in global governance” (Flohr et al. 2010: 7). Rather than being part of the problem, the private sector is expected to contribute to the solution (e.g. Ruggie 2002). It appears that the expectations of the social responsibilities of corporations have changed significantly over the past two decades so that corporations now engage in various areas from environmental protection to peace and security. As a preliminary step to the analysis of corporate contributions to peace and security, this section introduces global governance and CSR to illustrate the shifting roles of corporations, in particular TNCs, towards greater social responsibility and increasing participation in governance.

Furthermore, the concepts introduced here provide a theoretical background for the analytical framework developed in section 2.3.2.

### 2.2.1 Global Governance

The idea that corporations take on public roles in the framework of global governance is closely connected to the changing role of the state and emerging “governance deficits” in the context of globalization. Many scholars suggest that in the face of deepening globalization, the state has only limited authority (Mathews 1997; Reinicke 1997; Strange 1996). According to Gereffi and Mayer (2004: n.p.), “[c]ontemporary economic globalization has outstripped the capacity of national-level governmental and societal institutions to regulate markets and to compensate for their impacts”. As a result, “governance deficits” have emerged both at the international and domestic level (Gereffi/Mayer 2004), giving rise to the question of governance without government (Rosenau/Czempiel 1992). The concept of “global governance” developed in the course of the debate captures the shifting modes of governance apparent in the context of globalization, from predominantly hierarchical coordination through governments to complex interactions of both public and private actors on different levels and through various mechanisms including non-hierarchical forms of cooperation. Furthermore, the concept is discussed as an approach to tackle the apparent governance gaps.

Originating from economics and political science, governance generally refers to “the various institutionalized modes of social coordination to produce and implement collectively binding rules, or to provide collective goods“ (Börzel/Risse 2010: 114; similar Mayntz 2010: 37).<sup>5</sup> Thus, it consists of both structure and process. With regard to actors and institutions, governance includes governments and non-state actors such as corporations and NGOs. The term implicates that governments are not the only actors that can contribute to governance. It accounts for the various types of non-state actors that are involved in governance contributions, notably at the global level (Feil 2012: 33-34). Moreover, governance includes different modes of social coordination. Börzel and Risse (2010: 115), for example, differentiate between competition systems and hierarchical and non-hierarchical coordination such as negotiation systems and informal networks. For International Relations, the concept of governance emerging in the 1990s thus offered several new points of departure. Research can now focus the analytical lens on the different actors and modes of coordination that characterize “new modes of governance”. There is, however also a normative dimension associated with the term. Ultimately, scholars argue, global governance is needed to adequately address the challenges posed by globalization (Messner 1999; Reinicke 1997).

Corporations represent one of the actors considered in global governance that have received increasing attention. Flohr et al. (2010: 7) note that “[l]ike the state and civil society, corporations are in the process of redefining their traditional roles, identities, and functions in the light of the growing regulatory demands to which they are exposed”. While corporations were primarily an object of regulation in the past, they increasingly act as regulators themselves, through co-regulation with state actors or private self-regulation. Generally, the involvement of the private sector in governance is not a new phenomenon. Indeed, governments involved the private sector in governance a long time ago (e.g. Wolf 2010). Historically, the clear separation of the public and private sphere within the modern nation-state represents an exception to the rule rather than the norm (Deitelhoff/Wolf 2010a: 8). In the early modern

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<sup>5</sup> There are other, both wider and narrower definitions of governance. However, to avoid conceptual overstretch or a concept that captures only what some term „new modes of governance“, this thesis refers to a concept of medium-reach (see Risse 2008: 150).

state, for instance, it was common for private actors to take on functions of the state, even in the realm of security (Wolf 2010). In contrast to the past, however, present private governance contributions represent less a delegation of authority but rather voluntary self-commitments in reaction to expectations of the public (Flohr et al. 2010: 13). Such commitments tend to be enforced by soft means, such as transparency, NGO pressure and self-commitment including corporate codes of conducts or written agreements among companies or between companies and other groups (Feil 2012: 35; Haufler 2001a: 8). Many raise questions about the voluntary nature and lack of accountability and legitimacy of such commitments (e.g. Cutler et al. 1999; Simons 2004). It is widely accepted that corporate governance contributions cannot and should not be a substitute for government regulation. Nevertheless, the private sector, in particular TNCs, is recognized as a valuable governance actor for several reasons. Companies often bring in financial resources that cannot easily be matched by other actors, such as NGOs. Furthermore, they tend to be equipped with high technical, organizational and human resources coupled with the ability to foster innovation and efficiency (Fuchs 2007: 10; Haufler 2010: 107).

TNCs have received particular attention among governance by business actors, not only for their large resources but also for their crucial role in the global economy. TNCs represent a major force in the process of globalization that policymakers and NGOs need to take into account when addressing the negative effects of globalization. In the past 20 years alone, the number of TNCs has almost than tripled from 37,000 in the early 1990s to over 103,000 in 2010 (UNCTAD 1993: 2; UNCTAD 2011a: n.p.). Moreover, TNCs recently accounted for one quarter of the world's gross domestic product (GDP) (UNTAD 2011b: 25). Against the background of their increasing economic weight, TNCs have taken on active political roles. Through the participation in governance processes, TNCs have obtained increasing rule-setting power. Furthermore, TNCs have gained discursive power by participating in public debates on political problems and the definition of their own roles as social, economic and political actors (Fuchs 2005: 772). While some authors caution against an exaggeration of TNC power (e.g. Fuchs 2007; Ganser 2004: 60), it is apparent that TNCs are a force to be reckoned with in global governance. In addition to their obvious powerful presence in the economic and political realm, the interest in (Northern-based) TNCs can be attributed to the opportunities to influence their behavior (Banfield et al. 2003: 4). Feil (2012: 79) notes that Northern TNCs are more likely to be under civil society pressure and more absorbent to international norms and, therefore, exhibit characteristics that render them more likely to engage in governance. Similarly, Fuchs (2005) argues that the political role of TNCs depends on the public perception of their legitimacy. The next section explores the shifting expectations regarding the social responsibilities of the private sector, in particular TNCs, in more detail and introduces the concept of CSR.

### 2.2.2 CSR

Parallel to the debate on global governance, the CSR literature has discussed the shifting responsibilities of corporations vis-à-vis society. While corporations have a long tradition of engaging in social issues dating back to the nineteenth century, the concept of socially responsible business has rapidly expanded on a global scale since the early 1990s. This rise is reflected in the large number of corporate codes of conducts, CSR reports, and consultants and internal management structures dedicated to CSR (Vogel 2005: 6-7). Vogel (2005: 7) notes that “[i]n addition to having become more institutionalized, the contemporary resurgence of CSR is distinctive for its new focus and spread around the world”. Issues covered by CSR range from the environment, community relations and labor to human rights. Geographically, CSR has spread from the United States of America (USA) to Europe and emerging countries such as China and

India (Baskin 2006; Vogel 2005: 7). The global character of CSR is further mirrored by an increasing global awareness, the promotion of CSR through global actors such as the United Nations and the adoption of CSR policies by powerful TNCs (Mühle 2010: 30-31). NGOs were very influential in pressuring corporations to behave more responsible during the 1990s. Together with strategic organizational decisions of business actors, the external pressure led to a re-emergence of CSR, originally promoted by international organizations during the 1970s (Mühle 2010). The global diffusion of CSR was facilitated by the growing interactions of business, civil society and international organizations in the face of globalization. In addition to the proactive promotion of CSR through NGOs and political actors, such as international organizations and states, business has played a strong role in the diffusion process (Mühle 2010).

Despite the prominence of CSR, there is no consensus on what it entails. CSR is applied as a general and inclusive term that covers aspects of what some authors label Corporate Citizenship or Corporate Social Performance (Feil 2012: 36-40). In this research, the general concern of CSR is understood as the “responsible management of the relationship between companies and society” (Feil 2012: 40). The scope and content of that responsibility is, however, unclear. Minimalistic conceptions of CSR refer to the reduction of adverse societal impacts and the protection or enhancement of societal assets, while maximalist definitions focus on proactive behavior of businesses (Rieth/Zimmer 2004a: 12-13). The European Union has developed a medium-reach definition that is commonly referred to. It is subsequently applied in this thesis. The definition refers to CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2001: 6). Although there is no consensus on a standard definition, the definition applied by the European Union captures the main features accepted by the large majority of scholars and policymakers in the debate on CSR. First, it is assumed that business has a responsibility beyond profit maximization. It, therefore, appears that the stakeholder approach has overtaken the shareholder approach (Feil 2012: 40). While the shareholder theory argues that the responsibility of business is to maximize the returns to shareholders (Friedman 1970), stakeholder theory assumes that companies should create value for all stakeholders affected by business such as employees, customers, communities and governments (Donaldson/Preston 1995; Freeman 1984). CSR thus entails a departure from former understandings of business roles corresponding to Friedman’s much-cited article entitled “The Social Responsibility of Business is to Increase Its Profits” (Friedman 1970). It does, however, not dispute that corporations have an “economic responsibility” to fulfill (Carroll 1979: 500). A second feature identified in the debate on CSR is the voluntary nature of corporate engagement. To be qualified as CSR, corporate engagement has to go beyond legal requirements. Inherently assumed in this concept is that business has to operate within the framework of legal requirements (Carroll 1979: 500). Finally, CSR is understood as a tool that is applied to core business and not as “an optional ‘add-on’” (European Commission 2002: 5). Drauth (2010: 1) points out that “CSR is not about what a company does with its profits (e.g. sponsoring the local football club or initiating a one-time social project), but about how it makes that profit”.

Similar to the concept of governance, CSR is applied both as an analytical tool and a normative description of the role of business in society. On the one hand, the CSR debate has filled the concept with ethically, normatively and culturally motivated expectations of corporate rights and duties, reflecting the changed understanding of corporate roles over the past decades (Curbach 2009: 25-26). As such, CSR represents an empty formula to be filled with societal-normative expectations of the role of corporations (Curbach 2009: 26). Any definition of the “social responsibility” of corporations, therefore, draws on

concrete social norms. On the other hand, CSR is used as an analytical framework to capture and classify corporate behavior towards society, particularly corporate contributions to a collective interest (Feil 2012: 36).

## 2.3 Corporate contributions to peace and security

Analogous to the general move towards CSR and governance roles, TNCs have committed to socially responsible behavior in conflict zones. The aim of this section is to briefly introduce the recent emergence of the business-in-peace agenda and provide an analytical framework for corporate engagement towards peace and security by drawing on the concepts of CSR and governance. The framework is subsequently applied in the empirical case study.

### 2.3.1 The emergence of the business-in-peace agenda

The shifting role of TNCs is reflected by a growing engagement in different policy areas. Engagement in “low politics” such as health, the environment or economic development has featured prominently. Microsoft, for example, has partnered with the United Nations Industrial Development Organization (UNIDO) to support small and medium enterprises (UNIDO/Microsoft 2008); Chiquita has implemented policies to ensure environmental standards throughout its supply chain (Chiquita 2008); and Mercedes Benz is part of a public private partnership to combat HIV/AIDS (Müller-Debus et al. 2009). Peace and security as a classic field of “high politics”, on the other hand, are primarily considered as core responsibilities of the state (Deitelhoff et al. 2010: 205). It is only recently that corporate engagements towards peace and security have gained prominence both in public policy circles and the private sector. NGOs have played a major role in bringing business in conflict to the forefront of the international community’s attention in the 1990s (see Section 2.1.2). In addition to linking corporations with conflict, NGOs such as International Alert and the Council for Economic Priorities spurred public and scholarly interest in corporate conflict prevention (Haufler 2010: 119-120). The multistakeholder initiative United Nations Global Compact (UNGC), established by the former Secretary-General Kofi Annan to promote social norms for the business community in 1999, took up the issue of business in conflict in its first policy dialogue. Interestingly, the topic was pushed on the agenda by business leaders, in particular the diamond industry that was under public pressure for the trade in “conflict diamonds” (Haufler 2010: 120). The aim of the policy dialogue was to identify ways to help mitigate negative impacts of business in conflict and enhance the capacity of business to contribute to conflict prevention (UNGC 2007: 45). So far, the UNGC has published various policy papers, developed guidance tools and convened several workshops on the subject. Another high-profile partnership are the Voluntary Principles on Security and Human Rights. The governments of the United Kingdom (UK) and the USA launched the initiative by bringing together companies of the extractive sector and NGOs “to seek common grounds on security and human rights issues” (VP 2013). In the framework of the partnership, companies such as BP and Total commit to human rights standards while maintaining their own security and safety. Throughout the following years, the business-in-peace agenda gained momentum in the international community. Other global partnerships promoting responsible conduct of corporations in conflict zones and active contributions to peace and security include the Kimberly Process Certification Scheme, aimed at curtailing the trade with illicit diamonds, and the Extractive Industries Transparency Initiative (EITI), a multistakeholder initiative to promote revenue transparency. In 2011, the United Nations efforts to promote responsible business in conflict zones finally culminated in the adoption of the Guiding

Principles on Business and Human Rights. In addition to the standards developed within multistakeholder initiatives, TNCs unilaterally include conflict-relevant and conflict-sensitive provisions in their codes of conduct. Such commitments cover various issues from community development to provisions on security arrangements with governments.

While states, NGOs and international organizations appear to acknowledge the potential of corporate contributions towards peace and security and business actors become increasingly responsive to such expectations, the scientific community seems to be reluctant to extend the research on global private governance and CSR to the field of peace and security. For scholars who are interested in theoretical generalizations across sectors this lack of systematic research is particularly surprising because security represents a “hard case” for private self-regulation (Wolf et al. 2007: 295).

The following section provides a framework for the analysis of corporate engagement in zones of conflict. It builds on the work of Feil (2012) and Wolf et al. (2007), who attempt to bridge the evident “knowledge gaps” (Jamali/Mirshak 2010: 444) and offer points of departure for systematic academic research.

### 2.3.2 Conceptualizing corporate engagement towards peace and security

The analytical framework developed in this section categorizes TNC engagement in zones of conflict and analyzes how TNC engagement can be linked to peace and security. The literature on business in conflict identifies a wide range of corporate behavior and decisions available to TNCs operating in conflict. According to Wolf et al. (2007), the activities and initiatives of corporations in zones of conflict can be classified in four forms on the output (“words” and commitments) and outcome (“deeds” and behavioral changes) dimension, namely, i) proactive engagement towards peace and security, ii) business as usual, iii) withdrawal and iv) taking advantage of public regulation gaps. Least likely to have a positive impact on security in zones of conflict are companies that take advantage of regulatory gaps emerging in the context of insecurity. The trade in “conflict diamonds”, for example, has supported the maintenance of war economies in Sierra Leone and Angola. When corporations pursue their business operations “as usual” they generally comply with international laws and standards and a national regulatory framework that is oftentimes insufficient or not effectively implemented. For Nelson (2000), this form of engagement represents a minimum of corporate responsibility in conflicts. It is, however, not sufficient in ensuring that companies avoid negative impacts and create positive value. As demonstrated in Section 2.1.2, TNCs often fuel conflict through unintended effects. Withdrawal from a conflict zone represents another option, in which companies may at least “do no harm”. But similar to “business as usual”, disengagement from a conflict zone does not automatically lead to more peaceful and stable environments (Rittberger 2004: 22-23). The withdrawal of the Canadian oil company Talisman from Sudan, for instance, allowed a less transparent Chinese company to take over the operations (Feil 2012: 18). For these reasons, proactive engagement can be assumed to most likely contribute to peace and security, even though the different mechanisms and policies have not been systematically tested with regard to their impact and effectiveness (Wolf et al. 2007: 311).

Before delving into the different mechanisms linking corporations to peace, this section identifies the defining features of corporate engagement towards peace and security.<sup>6</sup> Based on the work of Feil (2012), who has developed a thorough and systematic conceptualization of the term, corporate engagement is defined by drawing on the concepts of governance and CSR as introduced in previous sections. In a

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<sup>6</sup> For the remainder of this thesis, „engagement towards peace and security“ will mean „proactive engagement“. The term „proactive engagement“ is avoided here, as some researchers have a narrower understanding that excludes, for instance part of conflict-sensitive policies and activities (e.g. Nelson 2000).

second step, the section analyzes whether and how such engagement links to peace and security. Corporate engagement towards peace and security is treated here as a governance contribution, although it shares the main characteristics of the defining features of CSR. A first defining feature of corporate engagement that is both a characteristic of governance and CSR concepts is that policies or activities surpass legal obligations (Feil 2012: 54-55). While CSR clearly emphasizes the voluntary nature of corporate engagement, governance reaches beyond the law by encompassing soft law such as voluntary codes of conduct, notably in environments that lack formal regulation. Feil (2012: 51) notes that in the context of zones of conflict and failed states, in which states cannot or will not implement existing regulations, the implementation of existing rules can be considered as an engagement beyond common practice or law. A second feature, comprised in both governance and CSR, is the need for a policy or activity to go beyond basic business needs (Feil 2012: 54). The reach of such engagement represents the indicator that distinguishes governance from CSR. While governance explicitly addresses common goods and collective regulation, CSR comprises a broader reach. The stakeholders to which corporations are responsible cover different groups of society but include, for instance, companies' own employees. CSR therefore encompasses a narrower, private reach excluded in governance concepts. The third defining feature for corporate engagement thus stipulates that a policy or activity needs to reach beyond the private good, understood here as the company including, for example, its employees. A fourth feature that is again shared in both governance and CSR concepts is that policies and activities are not sporadic. A governance contribution is a continuous engagement rather than a sporadic behavior. Similarly, CSR policies and activities that are applied to core business have a long-term perspective.<sup>7</sup> As a final criterion for governance, a policy or activity must hold some political quality and therefore relate to areas of security, government or welfare in its broadest sense (Feil 2012: 56). Here, the concept of governance is more specific than CSR, which encompasses a wider reach. In sum, to be categorized as corporate engagement towards peace and security, in this case a corporate governance contribution,<sup>8</sup> a policy or activity must i) surpass legal obligations, ii) go beyond basic business needs, iii) reach beyond the private good, iv) not be sporadic and v) hold some political quality.

Having identified indicators for corporate engagement as a governance contribution, corporate engagement is now linked to peace and security in a second step. Based on Feil (2012) and Deitelhoff and Wolf (2010a), corporate engagement is categorized along its connection to security. Security and peace are defined in a narrow sense, meaning the absence of violence (Müller 2003). The most evident contribution to peace and security addresses violent conflict directly. Possible contributions include the facilitation of peace negotiations, mediation among conflict parties or support for disarmament, demobilization and reintegration efforts (Nelson 2000; Oetzel et al. 2007: 344-45; Rettberg 2011: 91; Wenger/Möckli 2003: 130-132). Moreover, TNCs can provide security to a wider community surrounding the companies' operations (Feil 2012: 57). While acknowledging the potential roles for corporations, researchers express skepticism about the legitimacy and capacity of direct business contributions to security (e.g. Wenger/Möckli 2003: 132).

In addition to direct contributions, TNCs can contribute to peace and security through indirect mechanisms. Feil (2012: 56-61) differentiates conflict-relevant and conflict-sensitive approaches. Conflict-

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<sup>7</sup> In this feature, the conceptualization deviates from Feil (2012), who conceptualizes CSR in a broader framework that includes sporadic, philanthropic policies and activities.

<sup>8</sup> Corporate engagement towards peace and security is conceptualized as a governance contribution because peace and security represent collective goods and hold a political quality. Both features are possibly, but not necessarily, captured by the concept of CSR. Moreover, while engagement needs to go beyond sporadic policies and activities, it does not necessarily have to apply to core business.

relevant approaches address root causes or (de)escalating factors previously identified in a conflict analysis. While violent conflicts are generally highly complex and involve multiple, interacting causes, many conflicts share distinct patterns such as poor economic conditions, repressive political systems, degradation of renewable natural resources and ethnic diversity (Smith D. 2004: 115-117). Research on “new wars” has identified abundance in and dependence on natural resources as further risk factors of violent conflict (Collier/Hoeffler 2004; De Soysa 2000; Le Billon 2001). Corporate engagement can, therefore, address the level of violence through other policy fields. On the dimension of political order, typical fields of corporate engagement include the promotion of the rule of law, human rights, and transparency (Nelson 2000; Rieth/Zimmer 2004b: 83; Rosenau et al. 2009: 4). Previously identified negative connections, such as support of corrupt and repressive states, offer points of departure for positive interventions, for instance human rights codes or transparency initiatives in cooperation with the state. On the socioeconomic dimension, TNCs can contribute through the transformation of war economies and the fight against poverty and social divides (Deitelhoff/Wolf 2010a: 13; Rieth/Zimmer 2004b: 82). The policy area further encompasses the management of the environment and natural resources (Nelson 2000; Rustad et al. 2012). A third area of intervention is the socio-cultural dimension. In this policy field, TNCs can address socio-psychological grievances of violent conflict or promote a culture of peace (Feil 2012: 59). Policies and activities can be directed at an independent media, reconciliation or peace education (Deitelhoff/Wolf 2010a: 13). Within the different policy fields, conflict-relevant contributions are aimed at creating value and comprise what many term pro-active engagement (Jamali/Mirshak 2010: 452; Nelson 2000: 29; Wolf et al. 2007: 304). Similarly to the negative impacts, value creation can occur at the macro and micro level. At the macro level, corporate engagement addresses national and international structures, whereas micro-level engagement focuses on problems of companies’ operations, for instance with regard to neighboring communities (Nelson 2000: 143). As indirect, conflict-relevant contributions cover a broad spectrum, Feil (2012: 59) cautions against conceptual overstretching. In order to avoid assessing all engagement as conflict-relevant, Feil recommends a thorough conflict analysis determining relevant issues of the three conflict-relevant dimensions.

In addition to conflict-relevant engagement, corporations can contribute indirectly to peace and security through conflict-sensitive policies and activities. On the one hand, conflict-sensitivity includes the consideration of *how* policies and activities are developed and implemented, therefore allowing for procedural approaches to peace and security. Corporations pursue, for instance, participatory approaches in their relations with local communities to increase their relevance (Feil 2012: 59). On the other hand, conflict-sensitivity refers to the “do-no-harm” approach, meaning strategies towards the reduction of negative impacts of companies on conflict or the process of peace (Prandi/Lozano 2011: 10).

While acknowledging the potential of the different possible governance contributions of corporations towards peace and security outlined in this section, the thesis is aware of its limitations. The impact of such engagement has not been systematically tested and, so far, case studies paint a mixed picture (Deitelhoff et al. 2010; Feil 2012; Hönke 2012). Aside from the ambivalent impacts of corporate engagement on peace and security, the focus on corporate contributions to governance is criticized for its lack of a theory of power. It “overlooks the strategies that can be employed by the powerful to control the agenda and frame the issues in ways that deny spaces for opposition” (Garvey/Newell 2005: 392). The discursive power of TNCs can obscure that the impact of their engagement is little or even negative. Moreover, critics draw attention to democratic deficits, inadequate scope of policies and issues such as “regulatory capture” (Bendell 2004: 17; Utting 2005: 382-384). Notwithstanding these considerations, it is

assumed that corporations can make valuable contributions to peace and security under still largely unknown circumstances that need to be determined in future research (Wolf et al. 2007: 314). In a first step towards a comprehensive understanding of corporate engagement in peace and security, this thesis will investigate the potential conditions under which corporations pursue policies and activities directed at peace and security in the following section.

## 2.4 Explaining corporate contributions to peace and security

Research on business and conflict has identified a variety of factors explaining corporate engagement towards peace and security in conflict zones, mostly through empirical analysis. Different analyses indicated that there is not *one* factor that can explain corporate governance contribution alone, but rather a combination of factors that increase the likelihood for corporate engagement (Wolf/Schwindenhammer 2011: 14). According to previous research, company and industry characteristics represent one major bundle of factors (Ballentine/Nitzschke 2004: 39-44; Bray 2009: 5-11; Nelson 2000: 56-60; Wolf et al. 2007: 304-306). Visibility and reputation of a company, for example, influence how vulnerable it is with regard to transnational activist pressure (Haufler 2001b: 662-663). Closely connected to this factor is the size of a company (Wolf et al. 2007: 304). As such, the company size can also be relevant for the likelihood of engagement insofar as larger companies have greater financial, material and organizational resources (Oetzel et al. 2007: 352). Another company characteristic found to influence corporate engagement is corporate culture, particularly the extent to which CSR is an organizational norm (Feil 2012: 24; Wolf et al. 2007: 305). In addition to company characteristics, the type of industry, including production-specific factors, influences the likelihood of engagement. In the literature, asset specificity and mobility feature as important factors (Haufler 2001b: 662; Rittberger 2004: 23). The extractive industry, for example, is tied to a specific location and often makes considerable investments with a long-term outlook. Therefore, corporations from this sector cannot easily move their production elsewhere. While there appears to be a broad spectrum of relevant company and industry characteristics, they do not bear sufficient explanatory value. Wenger and Möckli (2003: 122) note that there is no single type of industry or company that typically contributes to conflict prevention. Overall, there is a significant variation of corporate engagement within sectors and, for instance, among companies of the same size (e.g. Pegg 2006; Shankleman 2006: 71-72). Moreover, there has been a variation over time while many company and production characteristics remained relatively stable. Hence, more dynamic, exogenous factors need to be taken into account.

The literature on business engagement in conflict zones finds market, social and political environments of corporations, globally and in both the host and home country, relevant factors. As delineated in the global governance and CSR literature, the business environment of corporations has changed significantly in the past two decades. Corporations operate not only in a narrow economic market constellation, but interact with a variety of public and private stakeholders such as states, international organizations, transnational civil society and shareholders. They hold different expectations of corporate conduct and challenge and induce corporations to engage through different mechanisms. Authors either argue from rationalist perspectives along the lines of cost-benefit calculations (logic of consequences) or constructivist perspectives emphasizing the role of norms in shaping corporations' preferences (logic of appropriateness). The home state of a corporation, for example, can influence corporations through various approaches from legalistic and confrontational mechanisms to cooperative schemes that can incur either costs or benefits. From a constructivist perspective, the home state influences corporations through

socialization of norms and practices (Deitelhoff et al. 2010: 213). In some cases, a combination of rationalist and constructivist approaches is applied (e.g. Deitelhoff/Wolf 2010b; Rieth/Zimmer 2004a). This thesis does not ex ante exclude any causal path as both approaches are not necessarily mutually exclusive and may in fact reinforce each other (Fearon/Wendt 2002; Wolf/Schwindenhammer 2011: 17). However, for the purpose of this thesis a rationalist framework is employed. Such an analytical lens seems more suited for a question that seeks to explain actions rather than preferences of corporations (Fearon/Wendt 2002: 64). The framework adopted is applied here as an analytical tool and not as a metaphysical position or empirical description of the world (Fearon/Wendt 2002: 52). It entails a broader understanding of action in terms of beliefs, desires and meanings than commonly assumed. For this thesis, corporations are assumed to pursue their self-interest, namely profit-maximization. However, this does not mean that firms employ a narrow market rationality based on short-term profits and benefits. Instead, it is more likely that corporations are motivated by complex market rationality. Wolf et al. (2007: 299) explain that in the complex social, political and market environments of today, “business has to include a bundle of factors within its cost–benefit calculations, including the management of reputational costs, normative expectations of stakeholders and the public”. The transnational civil society is highlighted as a major influence on the behavior of corporations both in the literature on business and conflict and more general works on global governance and CSR, which is why it will be considered here in more detail. The role of the host state, although not covered in such detail by the literature, is expected to play a crucial role for the local dynamic of conflicts. It will, therefore, be analyzed as a second factor. Other influences of the market, social and political environment identified in the research (e.g. competitors, home states and international organizations) are considered in the empirical analysis when relevant in the specific case, but cannot be explored in more detail in this framework.

In addition to the different factors in the wider social, political and market environment of a corporation, conflict characteristics can play a role in the probability of engagement. So far, few scholars have looked at conflict characteristics (e.g. Berman 2000; Deitelhoff/Wolf 2010a; Feil 2012) but rather treated them like “an elephant in the room, which authors are aware of but refrain from explicitly assessing” (Feil 2012: 26). The following sections address this deficit and delve into the potential influence of transnational activism and the host state environment.

#### 2.4.1 Civil society activism

Civil society actors<sup>9</sup> have played a strong role in bringing corporate governance contributions and CSR on the agenda. In the context of global governance, civil society itself, in particular NGOs, has evolved into an important governance actor that participates in rule-making and the provision of common goods on local, national and transnational levels. A central feature of their role in governance is that civil society actors not only actively contribute to public goods but also push other actors to adopt different standards and policies. Transnational advocacy networks, bound together by shared values, a common discourse and dense exchanges, have played an influential role in this regard by targeting states, international organizations and corporations (Keck/Sikkink 1998; Spar/La Mure 2003). In addition to setting the agenda, as in the case for corporations in conflict zones, transnational activists networks and NGOs can pressure or induce corporations to engage in a variety of issues including peace and security through different mechanisms.

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<sup>9</sup> Civil society is defined here as a political arena of society that is separate from family, the economy and the state (Zinecker 2011). It includes a variety of actors, such as NGOs, trade unions and religious groups.

Campaigns and consumer boycotts that “name and shame” corporations for misconduct, for example, can incur direct costs for corporations. Furthermore, being associated with violence can incur reputational costs (Deitelhoff/Wolf 2010a: 16). Companies with reputational concerns have an interest in keeping good relations with their stakeholders and are likely to respond to transnational activist pressures to avoid material and reputational costs (Haufler 2001a: 26-27; Rieth/Zimmer 2004a: 17). This also works the other way around. Companies may actively seek an enhanced reputation by setting higher standards than competitors (Börzel et al. 2011; Vogel 2005). Civil society actors can provide incentives for such behavior, for example through dialogue and service provision or direct partnership. In contrast to confrontational strategies, such collaborative approaches can provide an enabling environment for corporations that seek to increase their legitimacy among stakeholders (Flohr et al. 2010: 157).

The hypothesis following from the brief outline is summarized as: *Transnational civil society activism around security- and conflict-related issues directed at a company leads to corporate engagement towards peace and security in zones of conflict*. Initiatives of transnational civil society actors are taken as indicative of transnational activism. They include both confrontational and collaborative strategies, for example watchdog activities, boycotts, legal activism, advocacy, dialogue, service provision and partnership (Oliviero/Simmons 2002; Utting/Ives 2006: 13-14).

#### 2.4.2 The host state environment

Zones of conflict are special governance environments that indicate a failure in the provision of security. The “new wars” literature suggests that, often, such governance failures occur on a broad scale (Kaldor 1999). States are incapable of enforcing rules in parts of their territories and policy sectors. Thus, corporations are faced with a challenging operating environment whereby they cannot count on the host state to provide security and other basic collective goods. Some authors suggest that faced with the threat of anarchy and the associated costs, corporations may opt to provide governance themselves (Börzel 2010: 19, Wolf et al. 2007: 307-308). In contrast, findings show that consolidated statehood is instrumental in ensuring the provision of collective goods by non-state actors (e.g. Héritier/Lehmkuhl 2008). The “shadow of hierarchy” induces governance with and without government by the credible threat of coercion to unilaterally adopt and enforce regulation if non-state actors are unwilling to engage in governance (Börzel 2012: 8-9). Corporations seek to avoid the cost of regulation or enforcement (Haufler 2001a: 21). They can be expected to prefer voluntary governance schemes because they allow for an increased degree of autonomy, especially in the framework of unilateral action (Flohr et al. 2010: 126-136).<sup>10</sup> Börzel (2010: 17) notes that a medium “shadow of hierarchy” is required to make governance with and without government work. On the one hand, governments need to have the capacity to cast a credible “shadow of hierarchy”. On the other hand, government capacities must not be too strong in order to provide an incentive for governments to seek cooperation with non-state actors and to avoid fears of agency-capture by non-state actors. In this line of argument, corporations are expected to contribute to governance when the host state casts a medium “shadow of hierarchy”.

This concurs with the empirical evidence of Feil, which suggests “that corporations require at least the shadow of a government counterpart to become engaged” (Feil 2012: 157). The results, however, go further by showing that the “counterpart must have both (coercive) capacity and willingness” (Feil 2012: 158). States that are willing to contribute to the provision of public goods may induce corporations to

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<sup>10</sup> In some cases, corporations lobby for government regulation to restrain competition or gain consumer confidence (Börzel et al. 2011; Haufler 2001a: 21).

become engaged by facilitating and endorsing corporate governance contributions or partnering with corporations in multistakeholder schemes (Fox et al. 2002). While the state can render material, financial or organizational support, it is also “the major source of legitimacy for governance” (Börzel 2012). Moreover, the willingness to provide public goods only gives real credibility of the “shadow of hierarchy”. Together, a medium “shadow of hierarchy” and willingness to provide public goods can induce corporations to engage through a *threat* and/or *appeal* mechanism.<sup>11</sup> In states with weak willingness, on the other hand, companies need not fear further regulation and enforcement, nor might their engagement be welcome, particularly in authoritarian and repressive states (Deitelhoff et al. 2010: 214). In this case, the state offers neither incentives nor credible threats and might actually incur costs for corporations when they become engaged.

Following this outline, the assumption is the following: *Medium host state capacity to implement governance unilaterally coupled with host state willingness to provide peace and security leads to corporate engagement towards peace and security.* Indicators for host state capacity to implement governance are the monopoly of violence and administrative capacity (Risse/Leibfried 2011: 268). Indicators for the willingness to provide public goods (in this case peace and security) are policies and activities towards the provision of peace and security.

### 2.4.3 Conflict characteristics

Conflicts represent difficult and extreme operating environments for corporations. While few scholars have systematically analyzed the influence of conflict characteristics on corporate governance contributions, several factors were identified as relevant. Conflict proximity appears to be relevant as it influences whether companies suffer economic costs from violence. Nelson (2000: 62) notes that “[a] company will face more obvious risks if violent conflict is having a direct impact on the company’s operations, either in the workplace or along the local supply or distribution chain”. It is expected that “[a] company will have less ability, usually less interest and often less legitimacy [...] to intervene in conflicts that are occurring further afield and not directly affecting its immediate operations” (Nelson 2000: 62). The assumption is summarized as: *Conflict proximity leads to corporate engagement towards peace and security.* Other possible influences identified in the literature were conflict phase and the prominence of economic factors (Feil 2012). However, as they did not prove to be decisive factors in the empirical analysis they will not be considered here in more detail.

## 2.5 Case selection

As laid out in the introduction, this thesis relies on a comparative case study to investigate the conditions of corporate engagement towards peace and security. The hypotheses developed on the basis of existing literature in the sections above serve as a guiding tool in the analysis. It is expected that a more detailed investigation of the causal mechanisms leading to corporate engagement in both cases will lead to a more comprehensive understanding.

While the review of literature on business in conflict, global governance and CSR often considers a wider spectrum of corporate actors, the interest of this thesis lies with TNCs. They received a plethora of

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<sup>11</sup> While at first sight, both threat and appeal mechanisms appear to belong to either state capacity or willingness, they actually need both capacity and willingness together. Without willingness, the state cannot cast a credible threat. And without capacity, the state cannot effectively facilitate governance contributions, through either legal or political arrangements. Political endorsement can be considered an exception because it works without a certain degree of state capacity.

attention for their links with conflict. At the same time, TNCs are the focus of attention in the global governance and CSR discourse. In the business-in-peace literature, high expectations are laid upon them.<sup>12</sup> The two cases selected for the empirical analysis are drawn from a single unit, namely TNCs from the oil industry, to serve the criterion of comparability (Gerring 2004: 348). Company and industry factors are therefore kept largely constant, but will be addressed in interaction effects with other dynamic variables. Among TNCs, the oil industry was chosen as a least likely case for engagement. In the past, the extractive industry has been subject to heavy criticism for its involvement in violent conflicts. Due to their asset specificity, TNCs from the extractive sector usually decide to maintain their operations in the case of violent conflict. Furthermore, violence often occurs precisely because of the presence or extraction of natural resources, such as oil, involving TNCs even more directly (e.g. Renner 2002). A second criterion for the focus on the oil industry is that it resembles a situation of current policy concern (Van Evera 1997: 83-84). While it has received largely negative publicity in the past, policymakers and the public have developed high expectations of the extractive sector in reversing the negative impact in zones of conflict during the last years.

The cases selected from the oil industry are Shell's engagement in Nigeria from 1990 to 2013 and BP's engagement in Azerbaijan from 1992 to 2013.<sup>13</sup> While Shell in the Niger Delta is a prominent example in the literature on business involvement in zones of conflict (e.g. Hook/Ganguly 2000; Renner 2002: 46-47; Rieth/Zimmer 2004a), BP's engagement in Azerbaijan has received only limited attention (Davis 2013; Gulbrandsen/Moe 2007). Both companies display a proactive engagement towards peace and security in the respective zones of conflict since the late 1990s and are considered pioneers of CSR within the sector (Frynas 2009: 21). While the value of the dependent variable is similar, the two different conflict and governance contexts from two different regions for corporate engagement in zones of conflict can be expected to allow for variance on the independent variables ("method of agreement"). The purpose of the comparative case study is to investigate the causal mechanisms leading to each company's proactive engagement towards peace and security and to identify relevant similarities between the two cases. In addition to the variation between the two cases, the study of corporate behavior over time allows for multiple observations of engagement and influences in different phases of each case.

### 3. COMPARATIVE CASE STUDY

#### 3.1 Shell's engagement in Nigeria

The following sections analyze Shell's engagement in the conflict environment of Nigeria from 1990 until 2013 and investigate the conditions of Shell's engagement towards peace and security. In order to understand the operating environment and identify relevant corporate contributions towards peace and security, the next sections introduce the conflict background including causes and pertinent issues. Afterwards, a short profile of Shell provides important background information on the company and its production structure.

##### 3.1.1 Violent conflicts in the Niger Delta

Nigeria is a conflict zone that currently harbors six different conflicts of varying intensity in different parts of the country (HIIK 2012: 31). The oil companies present in Nigeria, including Shell, are primarily

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<sup>12</sup> The focus is primarily on TNCs rooted in the global North. Although there is an increasing number of TNCs from other parts of the world (UNCTAD 2011a), the overall focus remains on the OECD-world.

<sup>13</sup> The timeframe extends to the date of completion of this thesis in March 2013.

affected by conflicts in the Niger Delta because the large majority of oil operations are situated in this region. Other conflicts, including the conflict between Christians and Muslims or Boko Haram versus the government, are situated in the Central and Northern parts of the country and bear only limited relevance to the oil companies. Therefore, the conflict analysis is restricted to the Niger Delta, a region in the South of Nigeria (see Appendix: Figure 1). The region is of major significance to the Nigerian state as it accounts for over 90 percent of crude oil production in the country (Oboreh 2010: 17). The majority of oil production activities are located in the states of Bayelsa, Delta and Rivers. In the media, the Niger Delta is particularly known for the violent conflicts that have persisted in the region since the 1990s. The current conflicts are embedded in a long history of secessionist movements since Nigeria gained independence in 1960. After a longer period of more localized, low-intensity conflicts following the civil war from 1967 to 1970, violence re-erupted at the beginning of the 1990s (Mähler 2010: 12). At the beginning of the 1990s, the conflict between the Movement for the Survival of the Ogoni People (MOSOP) or, more generally, the ethnic group of the Ogoni, and the military regime dominated the Niger Delta. In 1997, the dynamics shifted towards the conflict between different ethnic Ijaw groups and the government. While the two conflicts share certain commonalities, they are distinctive in character and will be treated separately.

The first eruptions of violence between the Ogoni and the government at the beginning of the 1990s were preceded by community protests against the government and oil companies and the establishment of the MOSOP. Their demands ranged from compensation for environmental degradation to control over natural resources and political rights for the Ogoni people as expressed in the Ogoni Bill of Rights (MOSOP 1990). MOSOP pursued a peaceful approach that was, however, met with violent repression on the side of the authoritarian military regime. Repression by military and police forces included beatings, looting, torture, rape and extra-judicial killings (Ibeanu/Luckham 2007: 66). Furthermore, the government established a military body to suppress MOSOP protests. As a result of repression and violence, some 2,000 Ogoni were killed (Renner 2002: 167). Despite international protests, MOSOP leader Ken Saro-Wiwa and eight other MOSOP activists were executed in 1995, leaving the Ogoni movement severely weakened.

After 1996, conflict erupted mainly in the Delta State following the Kaiama Declaration of the Ijaw Youth Council (IYC), which expressed similar demands to MOSOP, including resource control and the withdrawal of military forces (IYC 1998). The government's response to the declaration relied heavily on repression. Violent clashes erupted between Ijaw youth groups and state security forces and also among ethnic groups. As youth groups further extended their activities on the occupation of Shell stations and kidnappings of staff, oil companies increasingly became the target of attacks. Among the various armed groups in the Niger Delta dominating the conflict in the following years, the Movement for the Emancipation of the Niger Delta (MEND) has caught particular attention of the media. Like MOSOP and IYC, MEND aims for resource control (Sahara Reporters 2007). In addition to attacks on oil installations, MEND has taken responsibility for car bombings, a large number of kidnappings and attacks on government facilities (Watts 2008: 53). The government responded to these attacks with military tactics against insurgents and communities accused of assisting or harboring them. Clashes between insurgents and the military left numerous insurgents dead and arrested (Watts 2008: 53). In 2009, the government pursued a different strategic approach by offering insurgents amnesty. Despite an official rejection by MEND, many rebels accepted the offer. Nevertheless, MEND's sporadic attacks continued throughout 2010 and 2011 (McNamee 2012). Another dimension of the conflict is the deepening criminality. Piracy, kidnappings and oil bunkering are widespread and serve as funding mechanisms for armed groups (Asuni 2009: 10; Hazen/Horner 2007: 69-71; International Crisis Group 2009: 5).

### 3.1.2 Root causes and key issues

There are at least five root causes that have led to violence in the Niger Delta, namely low socioeconomic development, cultural and political cleavages, fragile statehood and adverse social and ecological effects of oil production, and the organization of the political system, in particular, the distribution of revenues (Mähler 2010: 29; Zimmer 2010: 61-62). They are not confined to, but relate closely to the oil factor (Mähler 2010). Moreover, there are various escalating factors of violence in the Niger Delta. In a preliminary step to identifying conflict-relevant engagement, escalating factors and causes of violence in the Niger Delta are laid out and classified on the political order, socioeconomic and sociocultural dimensions. In the realm of political order, violence is linked to the nature of the Nigerian state, which is used as an instrument for competing ethnic and regional elites to maintain disorder and accumulate capital (Engel 2005: 200). On the one hand, the historical weakness of political institutions undermined the effectiveness of political output and the capacity of the state to provide security (Mähler 2010: 23). The resulting “public security gap”, which may have widened with Nigeria’s transition to democracy in 1999 (Ibenanu/Luckham 2007: 84), has created an opportunity structure for privatized violence. On the other hand, the nature of the Nigerian state, coupled with the increasing oil wealth since the 1970s, has given rise to rent-seeking, patronage, corruption and the use of political power for private interest (Mähler 2010: 23, 25). While these conditions fuelled feelings of marginalization in the Niger Delta, they also provided the structural basis for the involvement of different actors in illegal activities around oil bunkering (Mähler 2010: 29). Another factor that has contributed to violence in the Niger Delta is the violent response of the Nigerian military regime, supported by oil companies, to the initially peaceful protests of the Ogoni (Pegg 1999). The population of the Niger Delta experienced that the non-violent strategy failed to achieve its purpose and, instead, expressed their grievances through violence (Idemudia/Ite 2006: 395). Although repression was reduced with the transition to democracy, the selective and inconsistent application of repressive strategies is “fostering counter-violence activities rather than curbing violence” (Mähler 2010: 24).

On the socioeconomic dimension, much of the grievances in the Niger Delta are based on the rentier state nature of Nigeria. Since the 1970s, oil is the single most important revenue for the Nigerian state. Almost 80 percent of federally collected revenue is generated from oil (Central Bank of Nigeria 2012: 121), making Nigeria a rentier state.<sup>14</sup> Despite the oil wealth, socioeconomic development and living conditions remain on a low level, mainly due to misguided economic policies and negative effects of the oil dependency on other economic sectors, an effect known as “Dutch disease” (Mähler 2012: 395). Rather than reinvesting oil revenues in productive sectors or in the provision of public goods, the Nigerian elites have used revenues for private gain and patronage networks (Mähler 2010: 29). The rentier state theory assumes that elites behave accordingly because state elites do not depend on tax payments and are therefore less accountable to the public. In addition to personal accumulation of wealth and patronage, the revenue management of the Nigerian state has been a source of conflict, between the federal government and the states, the Northern states and the Southern states, and within states. In the wake of Nigeria’s centralization policies, the share of oil revenues distributed to the oil-producing regions was progressively reduced from 50 percent in 1966 to 1,5 percent in the 1990s, causing feelings of severe deprivation among the population of the Niger Delta (Obi 2009: 115-116). Moreover, as Zimmer (2010: 61) points out, “the question of revenue-sharing is further complicated by rent-seeking behavior, a lack of

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<sup>14</sup> Rentier states are characterized by substantial external revenues appropriated by the state (Schmidt 1991: 3). According to Luciani (1987: 70), the minimum share of rents out of total revenue is 40 percent.

transparency and corruption of elites at the federal, state and local levels". The feelings of relative deprivation in the Niger Delta stem from the continuous exclusion from the benefits of oil production while, at the same time, the population suffered from the negative social and environmental damage (Idemudia/Ite 2006: 398). Oil spills and gas flaring have destroyed livelihoods and involved serious health risks (Human Rights Watch 1999). These problems were further reinforced by the neglect of the federal government and the oil companies (Zimmer 2010: 62).

Finally, on the sociocultural dimension, cleavages between religious and other identity groups have fuelled violence. First, there is a division between the less developed and mainly Muslim and Hausa-Fulani dominated North and the ethnically heterogeneous Christian South. The existing mistrust and fears of domination were reinforced with the oil production (Mähler 2010: 27). The oil-producing regions of the South, for instance, openly protested the "enrichment" of the North through the federal government at the expense of the South (Herbst 1996: 157). A second cleavage is located within the Niger Delta. Interethnic and intercommunity conflicts provoke violence even more directly than the Southern rivalry with the North.<sup>15</sup> On the one hand, minority ethnic groups are concerned about the dominance of larger ethnic groups. On the other hand, conflicts have occurred between the Ijaw and other ethnic groups such as the Itsekiri and Urhobo regarding the ownership of land and local power (Mähler 2010: 22). While many of these conflicts are reinforced with the oil production, they date back to the pre-oil era. The ethnic and regional divisions are used for the (violent) mobilization of people and the disruption of politics (Engel 2005: 201). Moreover, they fuel feelings of relative deprivation.

This brief summary gives an impression of the complexity of the Niger Delta conflicts that involve various actors and issues. The conflict causes and escalating factors classified along the different dimensions are interwoven. Nevertheless, some key issues and mechanisms were identified. First, the real and perceived marginalization of the Niger Delta, through political exclusion, state and oil company repression, reduced revenues, pervasive poverty and unemployment, and environmental pollution has given rise to grievance-driven violence. The weakness of political institutions and the rentier state nature of Nigeria have contributed strongly to these adverse conditions. Moreover, the inherent weakness of the state, including the pervasive corruption and patronage, has provided an opportunity structure for violence and crime. Finally, cleavages among identity groups have multiplied both feelings of relative deprivation and rent-seeking behavior. Henceforth, direct conflict interventions could foster an agreement between the government, oil companies and violent groups. Additionally, security could be provided for local communities as a collective good. On the political order dimension, the fight against corruption, notably in the oil industry, would constitute conflict-relevant engagement. And on the socio-economic dimension, unemployment, environmental pollution and revenue management in the Niger Delta can be addressed. Lastly, on the sociocultural dimension, trust-building measures between communities in the Niger Delta as well as between Northern and Southern identity groups can foster peace.

### 3.1.3. Company profile

Shell is a British-Dutch multinational company registered in London and headquartered in The Hague. The company, active in the oil and gas industry, operates in more than 80 countries over the world and employs approximately 90,000 people (Shell 2012c: 31). In 2012, Shell ranked first among the 500 largest companies in the world with annual revenues of US\$ 484.4 billion in 2011 (Fortune 2012). Shell is

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<sup>15</sup> Direct connections to violence refer to conflicts in the Niger Delta. In the Northern regions, the conflict between identity groups of the North and South has turned increasingly violent (International Crisis Group 2010b; 2012).

engaged in both upstream (search, recovery and production of crude oil and natural gas) and downstream (manufacturing, marketing and distribution of oil products and chemicals) activities.<sup>16</sup> The company has first started exploration activities in Nigeria in 1937. Until the 1950s, Shell held a monopoly over exploration of all minerals and petroleum, granted by the British colonial government. In 1956, Shell discovered the first commercial quantity of oil in the Niger Delta and began exporting oil in 1958. In the wake of the nationalization of the oil industry in the 1970s, the Nigerian government took an equity stake in Shell's oil operations, followed by Agip and Elf in 1989. The current joint venture operated by the Shell Petroleum Development Company of Nigeria (SPDC)<sup>17</sup> is composed of the Nigerian National Petroleum Corporation (NNPC) (55 percent), Shell (30 percent), Elf (10 percent) and Agip (5 percent).<sup>18</sup> Shell is the largest oil and gas company in Nigeria since colonial rule and accounts for approximately half of the oil production in the country (Omeje 2006: 34). The company has over 6,000 employees of which more than 90 percent are Nigerians and its operations spread over 30,000 square meters (Shell n.d.b). The other major transnational oil companies in the Nigerian oil industry, ExxonMobil, Chevron and Total, launched operations much later than Shell and now dominate in the offshore industry. As Shell's infrastructure and operations are based primarily on land, the company has been more directly affected by the conflict dynamic than most other multinational oil companies.

### 3.1.4 Shell's engagement in the Nigerian conflict environment

The aim of this section is to analyze Shell's engagement in the Niger Delta conflict environment from 1990 until 2013. The investigation period begins with the first major violent eruptions in the Niger Delta since the 1970s. Within this period, there are two distinct phases of Shell's engagement, namely "business as usual" until 1996 and engagement towards peace and security since 1997.

#### 3.1.4.1 "Business as usual"

When Shell was confronted with community protests and violence around its operations at the beginning of the 1990s, it displayed an approach based largely on the idea of keeping the business running while protecting company staff and facilities. In its response to the perceived security threats, the company relied heavily on security forces. Like most oil companies, Shell used supernumerary police, or so-called "spy police", for internal security. The unarmed officers are typically in charge of guarding a company's premises. Furthermore, the company employed private security staff. According to Human Rights Watch, 20 percent of the total SPDC workforce were security staff in 1997 (Human Right Watch 1999: 105). In the wake of the protests, Shell also relied on armed regular police forces for internal security purposes to complement the usually unarmed "spy police". In addition, the Nigerian government provided Shell with military security forces in connection with external security such as patrolling operational sites and pipelines.

In this context, Shell was heavily criticized for its involvement in human rights violations and the cooperation with the military regime. Shell's involvement in the Umuechem massacre in 1990 is a commonly cited example for the company's overreliance on security. When local youths planned a peaceful protest against Shell in connection with the environmental degradation caused by the company's operations, Shell requested security protection from the Mobil Police Force, a unit that had killed two

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<sup>16</sup> Moreover, Shell has renewable energy activities.

<sup>17</sup> The SPDC is subsequently also referred to as Shell. When relevant, SPDC and the TNC Shell are distinguished.

<sup>18</sup> In addition to SPDC, Shell Nigeria comprises „Shell Nigeria Gas“ (SNG) and „Shell Nigeria Exploration and Production Company“ (SNEPCO).

people and destroyed numerous houses after having been called by the company three years before (Pegg 1999: 476). During the protests, the security forces killed 80 unarmed demonstrators and destroyed hundreds of houses. A subsequent inquiry found that there was no immanent threat of attack and that protesters were unarmed and peaceful (Frynas 2000: 56).<sup>19</sup> In addition to Shell's involvement in Umuechem and other cases of human rights violations (Pegg 1999: 476-477), Shell has supported the repressive military regime. In 1994, for instance, the company has provided financial assistance for the establishment of the Rivers State Internal Security Task Force to curb anti-oil protests (Omeje 2006: 82). The task force was involved in extrajudicial killings and repression of the population. Moreover, Shell attempted to import weapons into Nigeria for the "spy police" in breach of an arms embargo between 1993 and 1995. Human Rights Watch argued that the weapons on order "did not seem appropriate for protection from armed robbers and 'general crime'" (Human Rights Watch 1999: 160) as argued by Shell. As the conflict in the Niger Delta spread despite heavy government repression, particularly in the Ogoni territory, Shell suffered losses of some US\$ 200 million (International Crisis Group 2008: 3). The company subsequently withdrew from the Ogoni territory in 1993 but continued operations in other parts of the Niger Delta.<sup>20</sup> In addition to Shell's reliance on security forces and the withdrawal from Ogoni territories, the company reacted to the protests through ad-hoc community programs and gifts. Since the 1960s, Shell had pursued a Community Assistance approach that was essentially about "giving gifts to communities" (Zimmer 2010: 69). Local consent was purchased through cash payments, infrastructure or health care projects in a "pay-as-you-go" manner, leaving the communities without any substantial benefits (Idemudia 2011: 169). Therefore, this sporadic engagement is neither considered conflict-relevant nor as a governance contribution. With regard to compliance with national regulatory frameworks, Shell's engagement paints a mixed picture. The company was accused of violations of national laws, especially concerning oil spillage and compensation (Omeje 2006: 93-96). Existing laws were not monitored and enforced either due to the limited capacity or lack of willingness on the part of the military regime (Idemudia 2010a: 140-142). As Shell's partial compliance with environmental laws represent a continuation of previous behavior and was silently accepted by the government, it is considered "business as usual" rather than "taking advantage of public regulation gaps". Taken together, Shell's reliance on security, ad-hoc community projects and poor compliance with environmental laws demonstrate that faced with the conflict, the company continued its operations as usual and adopted short-term risk management strategies. It did not, however, attempt to provide security beyond its company premises and denied any "greater" social responsibility. In response to international appeals to act on behalf of Ken Saro-Wiwa's death sentence, Shell clearly rejects taking on a more political role:

"Some campaigning groups say we should intervene in the political process in Nigeria. But even if we could, we must never do so. Politics is the business of governments and politicians. The world where companies use their economic influence to prop up or bring down governments would be a frightening and bleak one indeed." (Shell 1995)

In subsequent years, Shell has reversed that position and its overall approach in the conflict from ignorance and securitization towards more responsive engagement that is geared towards security provision beyond the private good.

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<sup>19</sup> Shell contradicts this view (Detheridge/Pepple [Shell] 1998: 484-485).

<sup>20</sup> Shell's withdrawal represents a different value on the dependent variable and is not part of „business as usual“. Nevertheless, "business as usual" remains the dominant mode of engagement in the conflict environment until 1997 (see also Rieth/Zimmer 2004a: 21-23).

### 3.1.4.2 Corporate engagement towards peace and security

Since 1997, Shell's engagement in the Niger Delta conflict environment has undergone a substantial shift from "business as usual" to engagement towards peace and security. Shell demonstrates both direct security engagement that reaches beyond the company itself and indirect contributions to security through conflict-relevant and conflict-sensitive engagement in other policy fields. On the direct security dimension, Shell's engagement towards the protection of human rights stands out as a notable shift from previous positions and activities. In 1997, Shell published a revised version of the company's General Business Principles that included for the first time a commitment to society for the "support for fundamental human rights in line with the legitimate role of business" (Shell 1997: n.p.). Moreover, Shell has participated in the development of the VPs in 2000 and subsequently incorporated the standards in the company's Group Security Standards. Shell has taken steps to include the VPs in all security contracts and provided training for the implementation of the standards (Shell 2010: 21). In Nigeria, Shell has trained both state and private security forces in this regard. Furthermore, 4,720 staff, contractors and community leaders have received a Human Rights and Conflict Resolution training as of April 2012 (Shell 2012c). In addition to the VPs, Shell has committed to human rights standards in the framework of the UNGC since 2000. Shell's engagement towards human rights constitutes a governance contribution because the voluntary commitments have a long-term perspective and go beyond both basic business needs. Moreover, Shell's engagement reaches beyond the private good as the company trains other private and public security forces on human rights issues. The neighboring communities, specifically peaceful protesters, are expected to be beneficiaries of the policies. Thus, security is envisioned in a larger sense beyond the protection of company staff and property.<sup>21</sup>

On the public order dimension, Shell is further engaged in the promotion of transparency and the rule of law. In the company's General Business Principles and Code of Conduct, Shell has committed to anti-corruption standards based on EITI and the Transparency International Business Principles on Countering Bribery. Moreover, Shell has supported the global EITI as a founder and board member. In Nigeria, Shell actively supported the Nigerian Extractive Industries Initiative (NEITI) launched in 2003 as a member of the Board and the National Stakeholder Working Group, as well as through advocacy and sponsoring (Shell 2009). Although publishing company data is mandatory for corporations in Nigeria since 2007, the active support by Shell represents a voluntary governance contribution. Critics argue that NEITI is inadequate to achieve proclaimed goals (e.g. Asgill 2012; Shaxson 2009). Feil et al. (2008: 28), however, note that "the effect of EITI [NEITI] on the political debate and processes should not be underestimated". Shell's durable engagement towards greater transparency reaches beyond the private good as it promotes transparency not only in the company, but also in the public sphere. It is considered conflict-relevant because corruption and self-accumulation were salient factors both for grievance-induced violence and oil-bunkering activities. Furthermore, there is a conflict-sensitive dimension in the multistakeholder initiative NEITI as it comprises a procedural approach of decision-making by including representatives of civil society, government and the oil industry.

On the socioeconomic dimension, Shell has instigated a significant shift in its approach towards local communities in 1997. It aborted the Community Assistance strategy and implemented a Community Development approach. It was laid out to be more participatory so that communities are involved in

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<sup>21</sup> An unintended side-effect of Shell's engagement is that in order to reduce the reliance on the repressive state security forces, Shell has increasingly employed community-based groups, particularly youths, as private security contractors. This approach has fueled competition for territorial control among local youths and mixing with insurgents (Omeje 2006: 92; Zalik 2009: 569), therefore increasing the risk of conflict.

identifying needs and priorities, as well as in the implementation phase. Furthermore, a joint investigation process was supposed to investigate oil spills and determine appropriate compensation. The new approach, however, “proved to be a chimera” (Watts 2005: 399). The projects were neither sustainable nor participatory and spurred intra- and inter-community violence in competition over benefits (Idemudia 2010b: 836). Against this background, Shell introduced a third community development model in 2004, based on the ideals of partnership, namely the Sustainable Community Development approach. At the heart of this approach are Global Memorandums of Understanding (GMOUs) between Shell and a group of communities. According to Shell (2012a: n.p.), this represents “an important shift in approach, placing emphasis on more transparent and accountable processes, regular communication with the grassroots, sustainability and conflict prevention”. By the end of 2011, Shell had signed GMOUs with 27 community clusters, covering over 290 communities equaling about 30 percent of communities around the company's operations (Shell 2012a). The governing body of the GMOUs is the Cluster Development Board comprised of community members and representatives from Shell, the state and other development actors, thereby offering aggrieved communities a platform to voice their ideas and demands through non-violent mechanisms. Moreover, the approach of the GMOUs intends to reduce conflicts among neighboring communities. The Managing Director of the SPDC, Basil Omiyi, explains:

“We have decided to adopt the system of signing GMOUs with communities. This is an agreement with a group of communities rather than a particular one. In this case some of the communities are closer to our facilities while others are not, at the end all of them benefit and development would be enhanced.” (cited in Idemudia 2009: 109).

Critics acknowledge that the GMOU approach “is a substantial improvement on previous SPDC community engagement strategies”, but note that so far it has only “enjoyed a limited degree of success” (ECCR 2010: 75). In addition to community development through GMOUs, Shell promotes development programs on health, education, business development and youth development in the Niger Delta. Having identified (youth) unemployment as a conflict factor earlier, Shell's engagement in the area of youth and business development can be considered conflict-relevant. Programs cover the promotion of micro credit finance and training for young entrepreneurs and vocational and skills training. Both the durable GMOU approach, aimed at promoting sustainable development, and Shell's long-term engagement towards youth employment and business development constitute conflict-relevant governance contributions. Furthermore, the GMOU pursues a conflict-sensitive approach by institutionalizing participatory decision-making structures for host communities and including a wider group of communities.

With regard to the environment, Shell's behavior remains ambivalent. Shell asserts that it “remains committed to minimising the impacts of its operations and activities on the environment” (Shell 2007: 12). While Shell has committed to the ISO 14001 Environmental Management System standard <sup>22</sup> and regularly publishes data on oil spills, the majority of its commitments regarding the environment refer to compliance with the national regulatory framework (Shell 2007: 12-13). Although they are therefore largely involuntary commitments, the successful implementation of national regulation could be considered notable as the Nigerian state appears largely unable or unwilling to enforce existing environmental regulations. However, Shell's environmental compliance record, particularly with regard to oil spills, is contested among stakeholders and academic research (e.g. Idemudia 2009: 109-110; Omeje 2006: 93-96; Steiner 2010). Conflicts between Shell and local communities continue over pollution, sabotage and adequate compensation, even in court cases of Shell's home state. In January 2013, for instance, a Dutch

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<sup>22</sup> The standard specifies different requirements for an environmental management system.

court found the company guilty of oil pollution while dismissing four other cases caused by criminal activity (Nwachukwu et al. 2013). Consequently, Shell's engagement with regard to the environment does not constitute a governance contribution but is conceptualized as "business as usual". Rather than creating a positive value towards peace and security, Shell's behavior stabilizes existing conflict lines. On the sociocultural dimension, Shell does not exhibit notable engagement. Altogether, however, Shell's engagement in the Niger Delta conflict environment has undergone a visible shift from "business as usual" to engagement towards peace and security. While the impact of Shell's engagement in the conflict environment is not yet systematically analyzed, the company has demonstrated security-related, conflict-relevant and conflict-sensitive approaches through its human rights and security policies, the support of anti-corruption and transparency standards and community and private sector development programs. The next section analyzes the conditions for this shift.

### 3.1.5 Explaining Shell's engagement

At first sight, Shell's engagement in peace and security relates directly to the conflict environment. As indicated earlier, the company suffered large costs from instability in the region. First, Shell suffered economic costs from the shutdown of operations in the Ogoni territory (Omeje 2006: 81). In 2006, Shell also temporarily closed down operations in the western delta due to a series of attacks (Shell 2012d). In the recent past, Shell increasingly lost revenues due to oil theft and sabotage. Shell estimates that approximately 150,000 barrels are lost to oil theft per day (Shell 2012d). In response to repeated theft at a pipeline in 2011 and 2012, the SPDC Managing Director, Mutiu Sunmonou, noted: "It is difficult to sustain production in the circumstance as we have to shut down when a facility trips and fix the cause before restarting" (Shell 2012b: n.p.). Kidnappings represent another security risk for the company. Between 2006 and 2011, over 200 SPDC staff and contractors have been taken hostage, several of which have been killed in the course of the kidnappings (Shell 2010; Shell 2012d; Shell n.d.c). Shell's vulnerability towards such security risks and related costs is linked to the company's production characteristics in the Niger Delta. The size and spread of Shell's facilities across the delta, notable pipelines, make them vulnerable to protests and violence (Zimmer 2010: 74). Shell was directly exposed to violence, not only as a bystander but also as a target, and suffered direct costs through production cuts and kidnappings. While this exposure to the conflict explains why Shell has an increased interest in security for the company, it cannot sufficiently explain why Shell would engage in the provision of security as a collective good. As a matter of fact, Shell suffered economic costs in both phases of engagement, although the cost of insecurity rose significantly after 2003 when Shell increasingly became the target of violent attacks, kidnappings and crime. Hence, other factors need to be considered.

The main push factors for Shell's strategic shift was transnational civil society activism. Similar to many other scholars, Ite (2007: 9) concludes: "Shell in Nigeria has had to re-evaluate and change its policies as a result of the influence of both Nigerian and international NGOs." In the wake of the Ogoni crisis, civil society actors heavily criticized Shell's repressive behavior and drew attention to the company's role in human rights violations. MOSOP's demands were supported by other communities and youths (Zimmer 2010: 76). More importantly for the movement, however, MOSOP was successful in lobbying for its cause on the international level. MOSOP had substantial resources, largely thanks to Ken Saro-Wiwa's personal wealth, that paid for lobbying trips to Europe and North America (Bob 2002: 404). Due to Ken Saro-Wiwa's international recognition as a writer, MOSOP was also well connected to important NGOs and the media. After initial difficulties in publicizing their cause, MOSOP's framing around environmental issues gained the support of key players such as Greenpeace and Friends of the Earth and

Shell increasingly became the target of international protests (Bob 2002). In the course of increasing repression of protests, human rights organizations followed suit. International NGOs led coordinated campaigns around Shell's role in the Ogoni territory and raised the attention of the media. As Ken Saro-Wiwa and the other MOSOP leaders were put on trial and executed, international protests against Shell reached a climax, "not a day passed without media attention focused on the Shell company" (Haller et al. 2007: 88). In the same year as the execution, Shell was also put under increasing civil society and media pressure for the company's plan to dispose of the Brent Spar oil storage buoy. In addition to reputational costs suffered as a result of international naming and shaming campaigns and media attention, Shell risked significant material costs as international embargos and sanctions against Nigeria were expected (Haller et al. 2007: 88).

Against this background, Shell saw the need to respond and review its policies. The Chairman of the Committee of Managing Directors, Mark Moody-Stuart, stated: "Shell is undergoing fundamental change [...]. We have learned the hard way that we must listen, engage and respond to our stakeholder groups" (cited in Frynas 2003: 280). In addition to a global advertising campaign, Shell started a worldwide dialogue forum to explore the reputation and standing of the company and improve its understanding of the changing societal expectation (Rieth/Zimmer 2004a: 24). Furthermore, Shell initiated a dialogue with major NGOs. Managing external perceptions of the company became a crucial element of Shell's business strategy and led to the adoption of CSR policies in different fields. In the first Sustainability Report Shell states:

"We care about what you think of us. We want you to know more about how we work and how we strive to live up to our principles. This report is part of a dialogue, and we will continue to seek your views" (Shell 1998: 1)

In this vein, Shell also aimed to address local perceptions and secure a "social license to operate" (e.g. Idemudia 2010b: 834) by opening negotiations with MOSOP and reviewing the company's community development program to include, among other elements, participatory structures for communities and platforms for dialogue.

Overall, the shift towards CSR policies at both the global and local levels have improved the corporate image. Shell is now recognized as a world leader in corporate social responsibility (Frynas 2009: 7). However, this does not mean that Shell is no longer criticized. Transnational civil society organizations still confront the company with its negative impacts on stakeholders and the environment, also in Nigeria. In the Clean the Niger Delta campaign, for example, Amnesty International mobilized 300,000 signatures that were publically delivered to Shell Headquarters in 2012 (Amnesty International 2013: 6). Furthermore, civil society organizations supported litigation efforts, as in the case *Wiwa vs. Shell*<sup>23</sup> or the lawsuit against Shell for environmental pollution brought forward in The Hague. Such confrontational strategies serve to hold Shell accountable on self-proclaimed standards and beyond. Increasingly, transnational civil society organizations also apply more collaborative strategies, for instance, by partnering with Shell. The global initiatives EITI, VPs or the UNGC represent multistakeholder initiatives that include both civil society organizations and Shell. Moreover, Shell has cooperated with international NGOs in the Niger Delta. The UK-based NGO Living Earth assisted Shell in the revision of the community development strategy and the implementation process. Shell hoped to benefit from this partnership through NGO expertise and increased legitimacy on the ground. On the global level, the

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<sup>23</sup> The Wiwa family sued Shell for complicity in human rights abuses under the Alien Torts Claim Act in 1995. In 2009, the case was settled with a payment of US\$ 15.5 million.

partnership is part of Shell's management of the external perception of Shell's community strategy (Heap 2000). In sum, transnational civil society activism was a crucial factor for Shell's policy shift in the Niger Delta and beyond. Moreover, confrontational and collaborative civil society activism provided incentives for peace and security related CSR policies and governance contributions in the Niger Delta through (the threat of) financial and reputational costs, as well as efficiency and reputation-related benefits. Hence, Shell's reputation-sensitivity as a global brand with a large share of downstream activities, making the company visible to consumers, features as an important factor (Zimmer 2010: 71).

The availability of an enabling environment in Nigeria has also been a factor that can, in part, account for Shell's engagement towards peace and security. Shortly after Shell had initiated a policy shift in the conflict environment, the Nigerian state underwent a political transition. In 1998, General Sani Abacha, who had ruled the country since 1993, died of heart failure and was replaced by General Abdulsalami Abubaka. The military leader initiated a guided transition to civilian rule and democracy after 30 years of military rule, with several implications for Shell's engagement in the conflict. The most notable change occurred with regard to the government's willingness to provide peace and security as a public good. The capacity of the government to implement governance unilaterally, however, remained largely unchanged or decreased slightly. During military rule, the historically weak political institutions were further hollowed out, resulting in a reduced capacity to provide security and other public goods (Ibeanu/Luckham 2007: 45). Under the Abacha regime from 1993 until 1998, military repression kept the Ogoni resistance in check but did not provide security at large. Rather, part of the violence was "state-induced" (Ibeanu/Luckham 2007: 61). This indicates that despite its weakness, the state had at least a partial capacity to exercise its monopoly of violence. With the transition to democracy, governmental repression was reduced and applied more selectively. As a result, "the public security may even have widened under civilian governance" (Ibeanu/Luckham 2007: 84). According to the Bertelsmann Transformation Index (BTI), Nigeria's monopoly on the use of force now is limited in some regions and the larger cities. Nigeria is further characterized by a sophisticated administration system, whereby only the federal and state government execute real power (Bertelsmann Stiftung 2012b: 5-6).<sup>24</sup> With regard to the oil industry, the government regulation and oversight has expanded, but, in practice, enforcement remains limited (Idemudia 2010a: 140-141). Against this background, Nigeria's capacity to implement governance unilaterally is considered medium-range. It exhibited at least a medium "shadow of hierarchy" in tightening the oversight of the oil industry, although there is no evidence of the threat mechanism with regard to governance contributions towards peace and security. Furthermore, the state is neither too strong to discourage companies to become engaged, nor too weak to be a reliable partner.

The country's willingness to provide public goods on the whole, and peace and security in particular, has changed notably with the transition to democracy. Under military rule, the state's repression and policy towards the Niger Delta fuelled grievances that represent root causes of the conflict. Since 1999, the government has initiated different policies and implemented activities to tackle the conflict and foster peace. A measure that relates directly to the level of violence is the amnesty offered to insurgents in 2009. It reduced the level of violence to a certain extent (Bertelsmann Stiftung 2012b: 23). There are also various policies that address the conflict in the Niger Delta indirectly. In contrast to the military regime, for example, democratic governments have fostered a public debate about the links between oil, conflict and development (Ibeanu/Luckham 2007: 83). Moreover, the democratic government of President Obasanjo

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<sup>24</sup> In the past BTI ratings since 2006, Nigeria's monopoly on the use of force and basic administration scored 5 (except for Nigeria's basic administration score of 4 in 2006), with 1 being the lowest and 10 the highest (Bertelsmann Stiftung 2012c)

promoted transparency and anti-corruption policies through the adoption of EITI, the review of public procurement processes and the creation of an Economic and Financial Crimes Commission (Shaxson 2009: 9). Finally, the government has also started to address the issue of revenue allocation. In 1999, the percentage of oil revenues accruing to oil-producing state was increased from 3 to 13 percent. These initiatives indicate that the state is willing to address at least some of the root causes of the conflict. So far, the policies and activities have not achieved their proclaimed aims. Corruption, poverty and violence persist. In the Niger Delta, the government still remains largely absent, which is why communities increasingly look to oil companies for the provision of public goods (Rosenau et al. 2009: 16).

Despite these limitations, the changed position of the government has, in part, created an enabling environment for Shell's engagement towards peace and security. On the one hand, the government has fostered CSR policies through partnerships with Shell, for example, in the framework of EITI or GMoUs. For Shell, this partnership with the state can bring increased legitimacy to CSR frameworks. Moreover, it is a means to "share" the responsibility. On the other hand, the policies and activities of the state towards peace and security provide the opportunity for Shell to pursue its own policy shift after 1997. Commenting on the return to civilian rule and the increasing opportunities for the freedom of speech and the respect of human rights, Shell notes: "Shell companies in Nigeria welcome this change, and we continue to contribute any we can to ensure that these opportunities are used in the continuous improvement of our relationship with host communities" (Shell n.d.a: n.p.). In contrast, the implementation of such policies against a military regime notorious for human rights violations would have proved much more difficult.

In addition to transnational civil society activism, which greatly influenced Shell's policy shift in Nigeria and on the global level, and the favorable conditions in the host state environment after the transition to civilian rule, Shell's specific experience in the Niger Delta has played an important role. The company experienced that the repressive security policies at the beginning of the 1990s were unsuccessful and rather aggravated the conflict, therefore increasing the cost of business in the region. Shell's Regional Communication Manager for West Africa admits: "[W]e've made mistakes in the past, but we have learned from them" (Shell 2011: n.p.). Furthermore, Shell's policy shift in Nigeria has to be considered in the wider company policy. The hanging of Ken Saro-Wiwa and other MOSOP member and the Brent Spar incident were central events that pushed Shell to initiate a global policy change, on different fields of engagement and in different countries. While the experience in the context of the Niger Delta conflict were catalytic for an overall move towards CSR, the strategy for Nigeria is now part of a wider, evolved CSR policy that is part of Shell's business strategy.

### 3.2 BP's engagement in Azerbaijan

The following sections analyze BP's engagement in the conflict environment of Azerbaijan from 1992, when BP started business in the country, until 2013 and investigate the conditions of BP's engagement towards peace and security. In order to understand the operating environment and identify relevant corporate contributions towards peace and security, the next sections explore the conflict background. Thereafter, a short profile of BP provides important background information on the company and its production in the country.

### 3.2.1 The Nagorno-Karabakh conflict and internal tensions

The conflict over Nagorno Karabakh (see Appendix: Figure 2) goes back to the end of the First World War, although it only developed into a war following the collapse of the Soviet Union in 1991. The conflict is essentially about the status of the region of Nagorno Karabakh, which was made an autonomous region within the Azerbaijani Republic by the Soviet Union in 1921, although it was mainly populated by ethnic Armenians. The appeal of the regional Soviet of Nagorno Karabakh in 1988 to join Armenia fuelled Armenian and Azerbaijani national movements. While the Azerbaijani claim that the region is part of their territory, Armenia and the ethnic Armenians in Nagorno Karabakh insist on the principle of self-determination. In the aftermath of the collapse of the Soviet Union, the conflict descended into a war that caused between 22,000 and 25,000 deaths and over one million refugees and internally displaced persons (International Crisis Group 2007: 1). As a result of the fighting, which took place primarily between 1992 and 1994, Armenian forces occupied Nagorno Karabakh and conquered adjacent Azerbaijani territory. In May 1994, a ceasefire was brokered between Azerbaijan, Armenia and the authorities of Nagorno Karabakh by Russia and the Organization for Security and Co-operation in Europe (OSCE)<sup>25</sup>. Since then, the conflict remains “frozen”. Nevertheless, tensions remain high and violent incidents occur on a regular basis along the line of contact, a 180-kilometer long and highly militarized zone along the de-facto border of Nagorno Karabakh with approximately 20,000 to 30,000 troops on either side (Davis 2013: 56), and the border between Azerbaijan and Armenia. Approximately 30 people, mostly soldiers but also civilians, are killed in the clashes annually (International Crisis Group 2011: 1). A mediation process between the conflict parties is facilitated by the so-called Minsk Group of the OSCE, which is co-chaired by Russia, France and the USA.<sup>26</sup> So far, however, peace efforts, such as the talks in Moscow in 2008 and the Prague Process between 2004 and 2005 have failed to reach a settlement. In the recent past, peace talks have ceased while the clashes have increased. Ceasefire violations rose by 53 percent in 2010 (International Crisis Group 2011: 3). The International Crisis Group (2011: 3) warns that tit-for-tat attacks risk an escalation of the conflict. Moreover, Armenia and Azerbaijan amplify belligerent rhetoric and pursue an arms race, fuelled by Azerbaijani oil and gas revenues and Russia’s support for Armenia. Taken together, there appears to be a serious risk of war, possibly with a regional dimension (Merry 2013).

In addition to the conflict over Nagorno Karabakh, there is a conflict between various opposition groups and the Azerbaijani state since 2003 (HIIK 2012). Violent protests erupted around the presidential and parliamentary elections in 2003 and 2005. According to Human Rights Watch (2004; 2005), protests were met with brutal force, detentions and arrests. In 2003, security forces killed at least one protester (Human Rights Watch 2004). Repression through violence and intimidation of oppositional rallies has become a common means of political control, also outside the context of elections (International Crisis Group 2010a: 13). Throughout 2011 and 2012, protests against the government and state repression continued. While secular opposition groups, including political parties, are the dominant actors, there have also been violent clashes between Islamist groups and security forces (Sultanova 2012). The political objectives of opposition groups are diverse, but the majority of activism is directed against government corruption, repression and electoral fraud.

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<sup>25</sup> Previously Conference on Security and Co-operation in Europe (CSCE).

<sup>26</sup> Prior to 1997, Russia was the sole chair of the group.

### 3.2.2 Root causes and key issues

The roots of the conflict around Nagorno Karabakh go back far in history, or rather the interpretation thereof. There are contradictory national narratives from both Azerbaijan and Armenia. Both sides believe that Nagorno Karabakh constitutes an essential part of their national identity. This relates to a broader sensation of insecurity of the countries, fuelled by historical experiences (De Waal 2005: 12-13). With the collapse of the Soviet Union, opportunity structures became available that “facilitated a large social mobilization in the society, which, however, did not have clear channels of mediation or mechanisms of dialogue among the conflicting parties” (Gahramanova 2007: 3). Ethnicity played a strong role in the mobilization of the societies by nationalist elites (Geukjian 2012: 7). Furthermore, the breakdown of military discipline in the Soviet Union made weapons available to the conflict parties (Cornell 2002: 46).

In addition to the conflict background and related factors, there are several factors that have contributed to existing tensions and inhibited a peaceful resolution after 1994. Azerbaijan’s oil wealth has played an important role in this regard. Since the dissolution of the Soviet Union, Azerbaijan has pursued a development strategy primarily based on oil and gas. With the expansion of production, the share of oil and gas revenues in total government revenues grew from 23 percent in 1999 to over 50 percent in 2012 (EIU 2013: 4; Meissner 2010: 18). Azerbaijan is now highly dependent on these revenues. The government of president Ilham Aliyev has used the country’s oil wealth for increased defense spending. Military spending rose from US\$ 175 million in 2004 to US\$ 3.1 billion in 2011 (German 2012: 218). Growing oil revenues and, more recently also gas revenues, have therefore fuelled the arms race with Armenia and led to the belief that Azerbaijan can shift the balance of power in its favor (International Crisis Group 2011: 6). According to the president, a military solution of the conflict is not ruled out: “The purpose in allocating significant resources to army building [...] is that if the negotiations prove unsuccessful, then our lands must be liberated by a military option” (Aliyev 2010).

A second conflict factor, related to Azerbaijan’s oil wealth, is the government’s revenue management and inability to deal with corruption and governance issues. Mismanagement of revenues and corruption may result in greater domestic instability, which, in turn, creates incentives for “diversionary military aggression in Nagorno Karabakh” (Shankleman 2006: 83). Along with the oil boom, Azerbaijan has experienced classic symptoms of “Dutch Disease”. Other sectors, such as agriculture, have been neglected by the government and become less competitive (Boonstra et al. 2008: 2). To counter this development, a State Oil Fund (SOFAZ) has been established in 1999 that preserves revenues for future generations. However, there is little transparency and democratic control over the fund, and more generally over the management of revenues. Corruption is an endemic problem and deeply entrenched in the political culture. Oil revenues are used for personal enrichment and as an instrument of patronage (Kaldor 2007: 169-170). Moreover, the country is characterized by a semi-authoritarian political structure and (violent) repression of the opposition (Bertelsmann Stiftung 2012a). While these conditions foster grievances among the population, they are also conducive for violence as an instrument of opposition. Kaldor (2007: 171) concludes that “the formal democratic process does not offer mechanisms to challenge Aliyev’s rule or, indeed, to reform the political system. As a consequence, conflict, both in emphasizing the Karabakh bargaining chip and actual violence, is the main way in which opposition groups can compete for power”.

The role of external players in the conflict, notably Russia’s engagement, is considered another obstacle for the peaceful resolution of the Nagorno-Karabakh conflict. The most important external actors, Russia, the US, Turkey and Iran, all have significant geopolitical stakes in the region, with several implications for the conflict (Ismailzade 2005). It is argued that Russian traditionalists are not interested in a peace

settlement because they want to maintain the conflict as political leverage for Russian interest in the region (Kaldor 2007: 175). Moreover, Russia has rendered political and military support to Armenia in a close alliance, fuelling the arms race between the countries. Azerbaijan, on the other hand, has received support from its ally Turkey, whose relations with Armenia are severely strained. Similarly to the alliance between Russia and Armenia, the close partnership between Azerbaijan and Turkey “reinforces mutual mistrust and suspicion over Nagorno-Karabakh, hindering the prospect of a negotiated settlement to the conflict” (German 2012: 222). The alliances also fuel fears of an internationalization of the conflict. In sum, historical tensions, nationalist sentiments and the special circumstances provided by the collapse of the Soviet Union can be considered root causes of the Nagorno-Karabakh conflict. In addition, Azerbaijan’s dependence on oil, corruption, repression and geopolitical interests in the region are obstacles to the solution of the conflict and, in part, fuel the internal conflict in Azerbaijan. Consequently, direct conflict intervention could foster a negotiated settlement, for example through interregional cooperation. On the socioeconomic dimension, indirect contributions to peace and security could address the country’s oil dependence and revenue management. Moreover, on the political order dimension, a reduction of governmental repression and corruption, particularly with regard to oil and gas revenues, as well as increased political freedom, would reduce internal tensions and the risk of a violent escalation of the Nagorno-Karabakh conflict. On the sociocultural dimension, national and ethnic divides as well as mistrust could be addressed as a means to foster regional peace.

### 3.2.3 Company profile

BP is a British multinational company active in the oil and gas industry, covering both upstream and downstream activities.<sup>27</sup> The company employs over 83,000 people, has 21,800 retail sites and operates in more than 80 countries (BP 2012a: 30-31, 107). With an annual revenue of US\$ 368.4 billion in 2011, BP ranks fourth among the 500 largest companies in the world (Fortune 2012). BP first started business in Azerbaijan in 1992. The company operates under several different production sharing and host government agreements. In 1994, the Azeri-Chirag-Deepwater Gunashli (ACG) production sharing agreement, also referred to as the “contract of the century”, was signed. Within the consortium of the Azerbaijan International Operating Company (AIOC), BP, other international oil companies and the State Oil Company of the Azerbaijan Republic (SOCAR) soon developed three major oil fields in the Caspian Sea. The first oil was produced in 1997 and in 2008 the entire ACG field became operational. The oil is exported through different pipelines via Russia, Georgia and Turkey to different destinations, including the European Union. BP operates the Western Route Export Pipeline via Georgia and the Baku-Tbilisi-Ceyhan Pipeline through Georgia to the Turkish Mediterranean Coast, which only became fully operational in 2006, through the BTC Pipeline Company. BP has further developed the Shaz Deniz gas field with consortium partners SOCAR, Statoil and others. The first gas was pumped and transported in 2006 via the South Caucasus Pipeline (SCP) to Turkey, which runs parallel to the BTC pipeline. Currently, BP is also exploring and developing several other oil and gas fields.<sup>28</sup> With these activities, BP is the leading foreign oil and gas company in Azerbaijan and its investments in Azerbaijan represent one of the largest foreign operations of the company (Gulbrandsen/Moe 2007: 6). It is the operator and the largest shareholder of ACG, BTC, and Shah Deniz/SCP.<sup>29</sup> BP employs over 2,700 staff of which 86% were

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<sup>27</sup> In addition, BP has renewable energy activities.

<sup>28</sup> Chirag Oil Project, Shafag-Asiman structure, Shah Deniz Stage 2.

<sup>29</sup> Within the Shah Deniz/SCP project, BP and Statoil both own 25.5% of the shares. BP’s share in ACG is 37.4% and 30.1% in the BTC project (BP 2012c: 16).

Azerbaijani citizens in 2011 (BP 2012c: 16). While the oil and gas operations of BP are based offshore, the company's processing terminal and vast pipeline routes are based on land (see Appendix: Figure 3). The routes also pass near Nagorno Karabakh.

### 3.2.4 BP's engagement in the conflict environment of Azerbaijan

BP's engagement in the conflict environment of Azerbaijan gradually developed into a wider engagement towards peace and security. In the high intensity conflict phase between 1992 and 1994, BP displayed no engagement towards the conflict at all. This can be attributed to the early stage of business operations in the country. In 1992, BP had just opened its first office in Baku. Two years later, BP signed the first major contract with Azerbaijan. Especially during negotiations with the newly independent country and other international oil companies within the turmoil of political events,<sup>30</sup> BP can be expected to have avoided politically sensitive issues. With the subsequent development of business operations in the country, BP developed and expanded CSR policies and governance contributions within different policy fields, also towards peace and security.

BP does not address the level of violence through direct interventions in the conflict. The company's engagement, however, contributes to peace and security indirectly through other policy fields and conflict-sensitive engagement. On the political order dimension, BP addresses corruption. At the global level, BP has committed to anti-corruption and transparency standards in its Code of Conduct, based on EITI, UNGC and the Transparency International Business Principles on Countering Bribery. Indeed, BP is an active supporter and member of the steering committee of the latter initiative. In Azerbaijan, BP has played a leading organizational role in the EITI process since its inception in 2003. Among other, BP has cooperated closely with civil society organizations to enhance their knowledge and thereby improve external monitoring capabilities (Webb/Carstens 2008: 17). BP's own transparency engagement surpasses EITI requirements and the policies of other oil companies. Together with Statoil, BP is the only oil company that releases revenue and tax payment information in Azerbaijan. BP's transparency in Azerbaijan also goes further than in other countries (Crude Accountability 2012: 17). Anti-corruption policies are, for instance, expanded onto BP's suppliers. Moreover, the company has demonstrated a transparent approach with regard to the construction of the BTC pipeline (Elkind 2005: 55-58). Although corruption remains an ever-present problem in Azerbaijan and critics believe the company is not using its leverage over the government sufficiently (Gulbrandsen/Moe 2007: 7), it is evident that BP has taken up "a leading role in anti-corruption behaviour in Azerbaijan" (ASRC 2011: 10), which could have a catalyst effect on political processes in the country. BP's durable and visible anti-corruption and transparency engagement constitutes a governance contribution because it reaches beyond the private good by addressing the government, civil society and suppliers. The engagement is considered conflict-relevant as corruption was previously identified as a factor in the conflict between the government and opposition groups and a risk factor in the Nagorno-Karabakh conflict.

Concerning the socio-economic dimension, BP's support for a revenue management scheme relates indirectly to peace and security. BP has cooperated with the government of Azerbaijan to facilitate advice on economic planning and the management of oil revenues and the oil fund SOFAZ. For example, BP supported SOFAZ in the development of a macroeconomic model aimed at strengthening the government's capacity to manage oil revenues in line with Azerbaijan's State Program on Poverty

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<sup>30</sup> In addition to the Nagorno-Karabakh conflict, the government was politically unstable. During the negotiations, the former president of Azerbaijan, Abulfaz Elchibey, was overthrown in a military coup and replaced by Heydar Aliyev. Aliyev immediately cancelled a first contract with BP and other oil companies in 1993.

Reduction and Economic Development. Among other things, the program aims to ensure macroeconomic stability and balanced economic growth through the development of the non-oil sector (IMF 2003). BP has further convened workshops and supported an informal advisory group on revenue management and economic diversification (BP 2005: 10). BP's microfinance program and business enabling environment project constitute other contributions to the development of the non-oil business sector.<sup>31</sup> Aimed at promoting sustainable and balanced economic growth across Azerbaijan, BP's durable activities are considered governance contributions. They constitute conflict-relevant engagement because they are aimed at economic diversification in a country that relies heavily on oil and gas revenues. As laid out earlier, large oil and gas revenues have stabilized a repressive and corrupt government and fed into an increasingly militarized policy towards the Nagorno-Karabakh conflict.

With regard to conflict-sensitive governance contributions, BP's engagement around the construction of the BTC and South Caucasus pipelines stands out. Security and human rights policies and activities, particularly in the interaction with local communities, are aimed at reducing the potential for escalating conflict. On the global scale, BP has signed and implemented both the standards of the VPs and the UNGC. Moreover, BP has committed to the UN Guiding Principles on Human Rights and commissioned three experts to assess existing policies and activities in view of alignment with the Guiding Principles. The commitment to human rights is reflected within the company code of conduct. BP has developed guidelines to facilitate the implementation of human rights and security standards (BP 2006; 2008). In Azerbaijan, BP has undertaken several steps to implement the VPs, particularly in the context of the construction of the BTC and South Caucasus pipelines. Private security forces guarding the pipelines, for example, are required to adhere to the VPs. BP has also trained public security forces on human rights issues since 2004. To avoid conflict with local communities surrounding the pipelines, BP has engaged in a dialogue with community stakeholders regarding, among other things, the security arrangements. From 2006 until 2009, BP held over 250 community meetings. Furthermore, the company has established emergency phone lines for affected communities and individuals to report human rights abuses or the use of force (BP 2012b). External monitoring found the BTC and SCP projects "in material compliance with the Voluntary Principles, and setting global industry standards for effective implementation of this initiative" (Smith 2008: 1).<sup>32</sup> Other conflict-sensitive mechanisms incorporated in BTC and projects include environmental and social impact assessments, external monitoring and consultations with stakeholders prior to the construction of the pipelines. BP's engagement with regard to security and human rights and other conflict-sensitive engagement in its operations in Azerbaijan are considered governance contributions because of their voluntary nature, long-term perspective and reach beyond basic business needs. Targeting local communities and involving both private and public security forces who are criticized for their brutal response to protests, the engagement also reaches beyond the private good. The policies and activities are directed at preventing violence and conflict with surrounding communities in an unstable environment, not far from the region of Nagorno Karabakh. They "aim to avoid becoming a catalyst for ethnic or other conflict" (BTC Co. et al. 2003: 20). In its commitment to "[n]o accidents, no harm, to people, and no damage to the environment" (Republic of Azerbaijan et al. 2003), the BTC project is clearly characterized by a do-no-harm approach.

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<sup>31</sup> BP has several other business development programs, which are, however, largely directed at developing local suppliers in the oil and gas industry. Community employment promotion near BP's operations is also not considered significantly relevant for non-oil sector development.

<sup>32</sup> Following the evaluation of the VP's implementation in 2010, BP decided to halt external monitoring. Implementation is now only monitored externally in a broader scope through the Azerbaijan Social Review Commission (ASRC).

On other dimensions, BP does not engage towards peace and security. The company neither addresses the Nagorno-Karabakh conflict and the internal conflict directly, nor does it address nationalism or ethnicity as conflict factors on the sociocultural dimension. Existing regional cooperation programs with Azerbaijan, Georgia and Turkey exclude Armenia and Russia and, therefore, do not constitute conflict-relevant engagement. Notwithstanding these limitations, BP contributes to peace and security through conflict-relevant engagement with regard to corruption and oil dependency, as well as conflict-sensitive (human rights and security) policies, particularly toward local communities. The next section focuses on the conditions explaining BP's engagement towards peace and security.

### 3.2.5 Explaining BP's engagement

The conflict environment in Azerbaijan has not created direct costs for BP so far. BP's offshore installations are far away from Nagorno-Karabakh and clashes between the government and oppositional groups. The pipelines, however, pass as close as 15 kilometers by the de-facto border of Nagorno-Karabakh. Due to its economic significance to the government of Azerbaijan, the pipelines could easily become targets in an escalation of the Nagorno-Karabakh conflict. "[M]ajor conflict could lead to significant and potentially prolonged problems with the pipeline operation and even oil production, with serious impacts on the returns" (Mansley 2003: 15). Hence, the pipelines' proximity to the conflict region carries a substantial risk for BP. This vulnerability to violence results from production characteristics of BP's operations in Azerbaijan, notably the spread and location of the pipelines, which are susceptible to sabotage or violent attacks. The company is aware of the conflict risk and the potential damages (CSR Network 2003: 20), which explains its interest in measures aimed at preventing a violent escalation of conflict in the first place. While this preference plausibly explains BP's conflict-sensitive engagement around the pipelines near Nagorno-Karabakh, it cannot sufficiently explain the wide-ranging governance contributions aimed at long-term goals such as economic diversification and transparent revenue management. The costs associated with this engagement appear out of proportion in relation to BP's interest in securing its operations near Nagorno Karabakh.

A major push factor for BP's governance contributions towards peace and security was transnational civil society activism. The development of the BTC pipeline was accompanied by an international campaign involving both Azerbaijani and international NGOs. The Baku-Ceyhan Campaign, including international NGOs such as Platform or Friends of the Earth, raised strong political, social and environmental concerns about the BTC project (e.g. Muttitt/Marriott 2002). In addition to direct protests, NGOs voiced their criticism in letters to the World Bank, the European Bank for Reconstruction and Development (EBRD) and other funding institutions (Baku-Ceyhan Campaign n.d.). Among the different subjects covered through public criticism, NGOs highlight that the BTC and SCP projects could aggravate the human rights situation and fuel corruption (Amnesty International 2003; Green Alternative et al. 2002). BP has not avoided the criticism brought forward by civil society actors, but "has sought to enter into dialogue with critics of the BTC project, to seek effective new approaches to rule out potential problems, and to institute an unprecedented level of transparency in connection with the project" (Elkind 2005: 54). The former president of BP Azerbaijan acknowledges that, despite ongoing criticism of the project, "we've found a large group of the NGOs want to engage with us on this" (cited in Andrews 2004: 22). BP has regularly consulted with local and international NGOs such as Amnesty International and Human Rights Watch in its risk assessments and efforts to implement human rights standards within the BTC and SCP projects (Smith 2006; 2008). Furthermore, BP has cooperated with the Open Society Foundations to provide training for local NGOs involved in monitoring activities of BP projects. Azerbaijani NGOs have

worked with BP both in the framework of the EITI and BTC and SCP projects. Transnational NGOs have rendered significant support for activism of the rather weak local civil society in Azerbaijan (Molchanov 2011). While much of transnational civil society activism was directed at BP's pipeline projects, international NGOs also raised public attention to BP's role as a "pillar of the Aliyev regime" (Friends of the Earth et al. 2005). BP's support of a corrupt and authoritarian regime represents the main line of criticism. On the other hand, international NGO activism has demonstrated cooperative policies towards BP's role in Azerbaijan through consultation in the framework the global EITI and within cooperation with Transparency International on anti-corruption and transparency policies and cooperation with International Alert on local business development (BTC Co. et al. 2003).

In Azerbaijan, confrontational strategies of the transnational civil society have exercised significant pressure on BP to pursue a conflict-sensitive and transparent approach towards the pipeline projects. In a joint statement, the BTC parties state: "We note concerns expressed by various non-governmental organizations about the BTC Project. We take these concerns seriously". Specifically, the parties note: "We are determined to make the BTC Project a model project in all respects, and the environmental, social, and human rights aspects of the project are of fundamental importance" (Republic of Azerbaijan et al. 2003: n.p.). The mechanisms behind BP's response, on the one hand, are real and potential reputational costs associated with civil society activism and resulting media attention (e.g. Macalister 2003). Furthermore, BP faced economic risks because the (potential) project lenders, such as the World Bank, were targeted by civil society activism. Following heavy criticism of the World Bank's involvement in the Chad-Cameroon pipeline project, the bank was particularly sensitive to NGO activism and sought to avoid past mistakes (Mansley 2003: 20-22). Together with the EBRD, the bank played an important role in the establishment of environmental and social impact assessments, consultations, and monitoring activities (International Alert 2004: 12; Smith G.A. 2004: 78). In addition to the different oil and gas projects, BP was faced with (potential) reputational costs through transnational NGOs activism around its cooperation with the government. BP's anti-corruption and economic diversification governance schemes represent a step in countering this criticism and, thus, constitute a direct response to transnational civil society activism. On the other hand, collaborative strategies of transnational civil society actors have induced BP to engage towards peace and security through increased legitimacy and risk mitigation (e.g. Carroll 2010). This mechanism relates closely to BP's overall image as a pioneer in CSR, developed over the course of time and the related reputation-sensitivity. In line with the launch of the new BP slogan "Beyond Petroleum" in 2000, the company initiated a strategic move towards environmental and later also increasingly social responsibility policies. BP's reputation greatly profited from this strategic reorientation. In 2001, for instance, BP ranked first in two categories of the Financial Times' and PricewaterhouseCoopers' survey of the world's most respected companies (Financial Times/PricewaterhouseCooper 2001). As BP's reputation comprises a great part of the company's business value, BP is highly dependent on public perceptions. The environmental disaster of the Deepwater Horizon oil spill in the Mexican Gulf, for example, strongly damaged BP's reputation as a responsible company and created enormous financial losses. In this regard, BP's company and production characteristics as a highly visible company with a brand name and close connections to consumers plays an important role.

Earlier experiences of BP in conflict zones and in interactions with civil society organizations were influential in shaping BP's overall CSR strategy and engagement in Azerbaijan. In Columbia, BP faced NGO criticism and media attention over its complicity in human rights abuses. The company made direct payments to the military, which was accused of gross human rights violations. BP also provided the state

with information about protesters, which allegedly led to violent repression and disappearances (Frynas 2009: 23). With this experience and the recognition of rising importance of international stakeholder pressure, BP embarked on new social and environmental policies, including human rights policies (Frynas 2009: 23). The former BP manager David Rice notes:

“[W]e’ve learned from our mistakes, not least because we’ve been challenged by NGOs. In Columbia we were accused of getting too close to the army and police in order to protect our operations. We listened, approached Human Rights Watch for advice, and organized new security arrangements.”  
(Rice 2002: 135)

Furthermore, BP’s experience in Angola led to a rethinking of transparency policies. The company was put under public scrutiny by international NGOs for operating under a non-transparent government where oil revenues were used to fund war efforts (Global Witness 1999; Human Rights Watch 2001). In response to increasing NGO demands for transparency, BP, as the first company in Angola, agreed to voluntarily disclose payments.<sup>33</sup> In the same year, BP disclosed payments made to the government of Azerbaijan. With this commitment, “BP undeniably set a new standard of fiscal transparency” (Skjærseth et al. 2004: 10). Both experiences, in Colombia and Angola, led to an overall move towards increased stakeholder consultation and a recognition of the company’s social responsibility. The resulting CSR policies, in Columbia and Angola, as well as at the global level, and the experience gained in repeated interaction with transnational civil society actors have certainly contributed to BP’s do-no-harm and risk minimization strategy, regarding both immediate conflict and financial and reputational risks, in Azerbaijan.

The host state environment in Azerbaijan is another explanatory factor for BP’s engagement towards peace and security. Following instability and chaos after independence and during the intense phase of the Nagorno-Karabakh war between 1992 and 1994, Azerbaijan has gradually developed its shadow of hierarchy. President Heydar Aliyev, who gained power in a military coup in 1993, established an authoritarian system “with strong dynastic elements”, characterized by paternalistic control (Franke et al. 2009: 117-118). After the death of Heydar Aliyev, his son, Ilham Aliyev, became president and further consolidated autocratic structures. In Azerbaijan, the consolidation of the state went hand in hand with the concentration of power in the presidency (Kamrava 2001). Within this system, Azerbaijan demonstrates a medium-to-high level statehood. Central state authorities “have firm control over the country’s territory, with the exception of the territories occupied by Armenia” (Bertelsmann Stiftung 2012a: 5). Moreover, Azerbaijan has progressively developed comprehensive administrative structures. The quality of services provided, however, varies significantly and exhibits deficiencies such as corruption and incompetence (Bertelsmann Stiftung 2008: 6; 2012a: 6).<sup>34</sup> Azerbaijan is therefore capable to cast a credible shadow of hierarchy. In 2012, it publicly threatened to take “serious measures” against BP over the company’s failure in meeting oil output targets, which created revenue losses of some US\$ 8 billion (Gosden 2012). A leaked US diplomatic cable further revealed that Azerbaijan had threatened to sue the company over oil profits in the past (The Guardian 2010). While demonstrating the ability to credibly threaten BP to engage in governance towards peace and security, there is no evidence that the government has done so. Rather, the medium “shadow of hierarchy” was instrumental in providing favorable conditions for an effective partnership with BP, both in the framework of operations and governance

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<sup>33</sup> In response to BP’s commitment, however, the government of Angola threatened to revoke the company’s operating license.

<sup>34</sup> In the past BTI ratings, Azerbaijan’s monopoly on the use of force and basic administration scores rose from 6 in 2006 to 7 in 2012, with 1 being the lowest and 10 the highest score (BTI 2012c).

contributions. Exhibiting a medium-to-high capacity to implement governance unilaterally, the government carries sufficient capacities for a reliable partner in governance schemes on transparency and economic diversification.

Azerbaijan's overall willingness to provide peace and security is, however, limited. The government has demonstrated an increasing reluctance to advance a negotiated settlement of the Nagorno-Karabakh conflict. On the contrary, it has fuelled an arms race with Armenia and threatened to withdraw from negotiations (International Crisis Group 2011). While outright war could potentially damage oil and gas infrastructure and Azerbaijan's international reputation (Davis 2013: 65), Aliyev instrumentalizes the risk of war to distract attention from domestic problems and to maintain political control (International Crisis Group 2011: 11; Kaldor 2007: 179). Eventually, this strategy could spiral out of control and lead to the reemergence of war (Davis 2013: 65). In addition, Azerbaijan is fuelling domestic tensions through repressive policies towards oppositional forces. Despite the overall reluctant and uncompromising position of the government towards solving domestic and regional conflict, the country has initiated several conflict-relevant policies and activities. Azerbaijan's anti-corruption policies are a notable example of conflict-relevant governance contributions. Initiatives include the State Program on Combating Corruption, the National Strategy on Increasing Transparency and Combating Corruption and Azerbaijan's participation in the EITI. Furthermore, the government launched a high-profile anti-corruption campaign in January 2011. Apart from increased revenue transparency, corruption levels remain high so far (Freedom House 2012). Börzel and Pamuk note that corruption policies and activities do not genuinely foster public participation or civil oversight. In contrast, "the efforts of Azerbaijan's authorities to fight corruption have focused on strengthening the state apparatus, expanding its control over society and fostering the power of the incumbents" (Börzel/Pamuk 2011: 15).

In addition to anti-corruption policies, Azerbaijan pursued private sector development and economic diversification. As oil volumes are projected to shrink in the near future (International Crisis Group 2011: 11), the country has an interest in reducing its overreliance on oil and gas revenues. SOFAS, for example, uses a part of the oil and gas revenues to finance development in non-energy sectors. In 2010, Azerbaijan further invested 75 percent of the US\$ 17 billion going to development projects in Azerbaijan in non-energy-related sectors (Abbasov 2011). Priority sectors are agriculture, information and communication technology, transport and tourism. The vision of a more diversified economy was first formulated in the State Program for Poverty Reduction and Economic Development 2003-2005, but despite several activities, economic diversification remains a challenge for the rentier state Azerbaijan (World Bank 2009). Although not necessarily efficient or genuinely directed at peace and security, these conflict-relevant policies and activities of the government of Azerbaijan have offered points of departure for BP's anti-corruption and economic diversification engagement. BP's macro-policies are directed at the state and, therefore, cannot be exercised against the government. The willingness of the Azerbaijani government effectively enabled BP's engagement, but did not induce it through a threat or appeal mechanism. There is no evidence that the government threatened regulation directed at peace and security if BP would not engage. Moreover, the government, criticized by local and international stakeholders for various policies, did not offer sufficient legitimacy or financial and material benefits to induce BP to engage through an appeal mechanism. In fact, the government's overall reluctance in fostering peace and security could be an obstacle for corporate policies, for instance, directed at participatory regional approaches including Armenia. As far as policies towards peace and security diverged, BP acted carefully and avoided tensions with the government to prevent business risks as experienced in Angola. "[T]he company is careful to avoid upsetting the host government and undermining its business interests" (Gulbrandsen/Moe 2007: 7).

The selective conflict-relevant policies of the government, on the other hand, enabled concerted efforts of BP and Azerbaijan. Concerning BP's conflict-sensitive policies in the framework of the pipeline projects, the government has taken on a rather neutral position. The transparency policy was in line with the governmental strategies and human rights and security precautions did not create significant costs for the government to object. Moreover, BP enjoyed a higher bargaining power before the oil boom (Frynas 2009: 148), which could explain its increased ability to influence the projects. With increasing oil revenues and the related confidence boost of the government, however, BP's leverage shrank (Gulbrandsen/Moe 2007: 7) and the company became more dependent on the government's approval. Against this background, the state's willingness to selectively provide conflict-relevant governance represented a necessary, but not sufficient, condition for BP's engagement in a state with a medium-level capacity to implement governance unilaterally. A medium-level capacity to implement governance was further necessary for BP's partnership with the state.

#### 4. COMPARISON AND DISCUSSION OF FINDINGS

The cases above were analyzed to identify the conditions under which TNCs contribute to peace and security. In both cases, company engagement related mainly indirectly to peace and security. Shell and BP both contributed to peace and security through conflict-relevant policies and activities on the political order and socioeconomic dimension. Transparency policies, targeting in particular the oil and gas industry, as well as private sector development, played an important role in both cases. None of the companies, however, exhibited engagement on the sociocultural dimension. In Azerbaijan, BP further applied conflict-sensitive policies and activities that were largely geared towards "doing no harm". Shell in Nigeria, on the other hand, incorporated procedural conflict-sensitive approaches in its conflict-relevant governance schemes. The only engagement directly connected to peace and security, was Shell's human rights and security policy in the Niger Delta. The different focuses of the companies' engagement relate closely to the conflict setting. In Nigeria, Shell was faced with outright violence as a target, which conceivably led to more direct interventions in the conflict that aim for conflict mitigation and tackle root causes. BP, on the other hand, operated in a less violent but highly tense conflict environment. This explains BP's strong focus on the prevention of escalating conflict through conflict-sensitive approaches and intervention in conflict-aggravating fields. The interstate dimension of the conflict in Azerbaijan, which is expressed in confrontations between state military forces, further raised the bar for direct interventions of BP.

But why do TNCs contribute to peace and security, directly or indirectly, at all? The evidence suggests that conflict proximity only bears limited relevance for TNC engagement in peace and security. On the one hand, conflict proximity proved to be a crucial factor in determining the companies' interests in security and the minimization of conflict-associated risks. While Shell experienced direct costs from violence, BP was well aware of the potential risks emerging from conflict proximity. The vulnerability of the companies towards the geographically proximate conflict in both cases can be attributed to production characteristics, such as pipelines. On the other hand, this vulnerability and interest in security was not a sufficient condition for the companies' engagement towards peace and security. Shell already suffered economic costs from the proximate conflict during its "business as usual" phase. And while the geographic proximity to the Nagorno-Karabakh certainly influenced conflict-sensitive practices around BP's pipelines near the region, it cannot sufficiently explain the full scope of BP's engagement. The hypothesis (H3) could, therefore, not be substantiated in this research.

Another factor for the companies' engagement towards peace and security was the host state environment. However, in the two cases, neither the threat nor the appeal mechanism held much explanatory power. Although Azerbaijan and Nigeria both had a medium-level capacity to implement governance unilaterally and were at least partially willing to provide peace and security (or related policies), the governments did not use threatening capacities to induce corporations to engage in governance.<sup>35</sup> In addition, there was only limited evidence for the appeal mechanism. While Shell profited from a partnership with the government, the benefits were not profound enough to "trigger" engagement in the first place. Moreover, Shell had already initiated a policy shift before the state's transition. In Azerbaijan there was no evidence of a direct appeal mechanism, which could be ascribed to the government's limited willingness. Collaborative governance schemes between companies and governments rather stemmed from the structure of the oil and gas production arrangements or overall business interests in the country. Nonetheless, government capacity and willingness proved to be important factors. For cooperative governance schemes, for instance, a medium capacity of the government to implement governance is necessary. Moreover, the research demonstrates that a minimum degree of host state willingness was necessary for the companies to engage towards peace and security. Whether genuinely directed at peace or not, the state's willingness to implement conflict-relevant and conflict-sensitive policies enabled Shell and BP to engage in this field. In contrast, the lack of willingness provides an obstacle to corporate engagement. When corporations contribute to governance against the interests of the government, as BP attempted in Angola, it could potentially hurt their business interests. Rather than a sufficient condition, government capacity to implement governance coupled with willingness to provide peace and security proved to be a necessary condition for corporate engagement in the framework of cooperative governance schemes with the state. In states with at least medium-level capacities, willingness is also an important factor for unilateral corporate governance contributions. The hypothesis was, therefore, not substantiated (H2).

The essential driver of corporate engagement towards peace and security in both cases was transnational civil society activism. The empirical findings suggest that strategic calculations of financial and reputational costs and gains, as well as possible efficiency gains, are the dominant causal mechanisms linking activism to engagement. In the case of Shell, transnational NGOs, engaged around peace and security issues in a wider sense, first pressured the company into a policy shift towards CSR in Nigeria and at the global level. The ability of local civil society actors, notably the MOSOP movement, in gaining support from international civil society played an important role in this regard. Transnational activist networks incurred largely reputational costs for Shell through naming and shaming campaigns, which led to a rethinking of its position towards its stakeholders, also in the Niger Delta. After this shift, transnational civil society activism continuously influenced Shell's behavior through confrontational strategies that involved real or potential financial and reputational costs. Increasingly, civil society actors have also relied on collaborative policies, which have induced Shell to engage through reputation and possible efficiency gains. Similarly, BP's engagement towards peace and security in Azerbaijan resulted largely from transnational civil society activism. Previous confrontational strategies of transnational NGOs on BP's behavior in Columbia and Angola first initiated an overall rethinking of related CSR policies. In addition to this policy stance at the global level, both confrontational and collaborative strategies of international civil society activists induced BP to adopt conflict-sensitive approaches towards the pipeline construction and maintenance and conflict-relevant engagement to counter corruption and overreliance on energy revenues. Similar to Shell,

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<sup>35</sup> While there was no evidence for such mechanisms, they cannot be entirely excluded. It appears plausible that such threats are often made behind closed doors and not made public.

transnational activism induced BP to engage through (potential) financial and reputational costs, expertise and legitimacy gains. Consequently, the empirical evidence is congruent with the hypothesis developed earlier (H1).

Overall, the hypotheses could not fully explain corporate governance contributions towards peace and security. Both company and production characteristics played an important role in interaction with other factors. On the one hand, the companies' production-specific characteristics, in particular the reliance on oil and gas pipelines and the location of oil exploration activities, determined the companies' vulnerability towards conflict. On the other hand, the companies' high reputation-sensitivity, determined by both company strategy and company and production characteristics, renders them vulnerable to confrontational transnational civil society activism. Through the companies' downstream activities, Shell and BP are close to customers. The size of the company, the origin in Western industrial countries and the brand name further enhance their visibility and vulnerability to naming and shaming activism. At the same time, both Shell's and BP's CSR engagement is part of their business concept. The shift towards CSR policies can also be attributed to the companies' strategic business decision to set themselves apart from competitors through the reputation of a socially responsible corporation ("the business case"). The increasing collaborative strategies of transnational civil society actors build on this strategy by inducing corporations to engage through reputational gains. Without those gains, BP and Shell would have been unlikely to engage with civil society in a wider scope. Thus, reputation-sensitivity proved to be a necessary condition for the influence of civil society activism.

Furthermore, the empirical evidence showed that experiences in conflict settings and, most importantly, repeated interaction with transnational civil society actors have led to instrumental learning (Panke 2004) on the part of the companies. The experiences have resulted in a better understanding of risks associated with conflicts and activism and a gradual adjustment of corporate policies to external constraints and potential opportunities. Finally, it has to be noted that in addition to civil society actors and host states, other stakeholders can influence the companies' cost-benefit calculations. In their governance schemes, for example, Shell and BP both cooperated with other states, international organizations or financial institutions. For example, the World Bank's involvement in BP's BTC and SCP projects as a lending institution contributed to the conflict-sensitive approach taken in the construction and maintenance of the pipelines. Moreover, as the home state of BP, the UK promoted the multistakeholder initiative EITI and encouraged BP's participation in it.

Taken together, it becomes evident that, under the rationalist analytical lens, the companies' engagement in conflict zones is determined by external constraints. Cost-benefit calculations in a complex market environment that increasingly expects companies to take on social responsibility were the driver of BP's and Shell's decisions. The cases have demonstrated that strategic calculation can occur with a long-term perspective and involve instrumental learning. Constructivist perspectives, in contrast, would interpret the causal pathways not as strategic calculation but argumentative persuasion and focus on the changing preference of Shell and BP. Ultimately, there is no way to exclude the applicability of such mechanisms in this research. But it appears plausible that companies' references to social norms can be interpreted as a strategic tool to improve the company's image or legitimize corporate practices. Moreover, instances of non-compliance, as for example Shell's environmental non-compliance in the Niger Delta in view of limited governmental monitoring and enforcement capacities, indicate that companies will deviate from social norms when external constraints lack. Finally, the existence of a global CSR norm can be excluded as an explanation of the companies' engagement, because company engagement varies even among big

Western oil companies. Rather, the emergence of the global CSR norm has changed the environment in which companies operate.

## 5. CONCLUSION

The empirical results show that TNCs have taken on different roles in zones of conflict outside their involvement in causing or aggravating conflict. Rather than only fuelling violence, this case study has observed various TNC contributions to peace and security. Most governance contributions addressed violent conflicts indirectly through conflict-relevant engagement in other policy fields. Other contributions include conflict-sensitive governance schemes. Direct contributions to peace and security, however, remain an exception. The empirical analysis, directed at the investigation of the conditions of such engagement, found transnational civil society activism the major driver of corporate governance contributions. As a necessary condition for this influence, the study identified reputation-sensitivity of TNCs, which is strongly determined by company and production characteristics and possibly corporate business strategy. Conflict proximity proved to be another important factor, although not as a sufficient condition. Rather, the experience of real or the awareness of potential material, financial and reputational costs through geographic proximity increased the company's interest in security and peace. While a medium-host state capacity to implement governance unilaterally combined with the government's willingness to provide peace and security did not cause corporate governance contributions to peace and security, it still played a significant role. In both cases, a medium-capacity combined with at least a selective willingness proved to be a necessary condition for cooperative governance schemes of TNCs. It further became evident that unilateral TNC governance cannot work when directed against the government's will. These results do not contradict a potential engagement-triggering role of host governments per se. However, the findings show that the host state has a role to play beyond threatening or inducing corporate engagement. While much research regarding the "shadow of hierarchy" has focused primarily on coercive capacities of the state, this analysis has also highlighted the importance of the host state willingness.

In sum, H1 was confirmed whereas H2 and H3 could not be substantiated. Since there is likely to be more than one sufficient condition for corporate engagement in governance, H2 is not rejected for future research. H3, on the other hand, appeared to be a precondition rather than a trigger for corporate engagement. Further research should explore this finding and look at other potential conflict influences. Departing from the additional influences found in the case study, this thesis also acknowledges the need for further research on the role of the "business case" and other external stakeholders, such as the home state and international organizations, for corporate engagement in peace and security. In addition to exploring the role of other factors in more detail, further cases studies could test the empirical findings, particularly the interplay between necessary and sufficient conditions, as well as structural and dynamic influences. In this context, future research could also investigate whether and how rationalist and constructivist causal paths link. To substantiate the findings, case studies should include different values on the dependent variable.

Understanding the conditions of corporate governance contributions to peace and security represents an important step in evaluating TNC roles in conflict and finding solutions to conflict settings more generally and TNC involvement in conflict zones in particular. Although this research focused on TNCs from the extractive sector, the arguments put forward also bear relevance for TNCs in other sectors with similar reputation-sensitivity or vulnerability towards violent conflict. When TNCs with these characteristics

cause or aggravate violent conflict, transnational civil society organizations can pressure or induce them to reevaluate their policies towards positive contributions. Continuous interaction, possibly in the framework of cooperative governance schemes, can make compliance with proclaimed policies more likely. Similarly, host governments can cooperate with TNCs or threaten them to foster peace, when willing and able to do so. In extractive industries, governments usually have considerable leverage over companies once the production is running. A serious challenge in this vein, however, remains in addressing authoritarian and rentier state structures that undermine the host country's willingness to provide public goods for its own population and an enabling environment for TNC social responsibility. These implications also relate to the wider discussion on global governance, especially in areas of limited statehood. Aside from the generally accepted role of transnational civil society, the results in this study underline that a minimum degree of statehood is necessary for governance with government. Furthermore, the research has shown that a minimum of agreement on governance issues is necessary for governance both with and without government.

Finally, it has to be noted that although the policy options put forward here have the potential to induce TNC governance contributions, their effectiveness is not guaranteed. At first sight, the impact of corporate engagement towards peace and security remained limited. Indeed, TNC governance contributions can have unintended negative effects on the conflict. Another issue that remained unaddressed in this research is the legitimacy of corporate interventions. Both output and input legitimacy dimensions should be considered in future research. While research on the effectiveness of interventions offers points of departure for possible output legitimacy, the investigation of potential governance structures that include, for example, participatory structures directed at increasing corporate accountability, may provide insights on increased input legitimacy. Essentially, these considerations are crucial in assessing, not only under which conditions TNCs contribute to governance in zones of conflict, but how desirable such contributions actually are.

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APPENDIX

Figure 1: Map of the Niger Delta



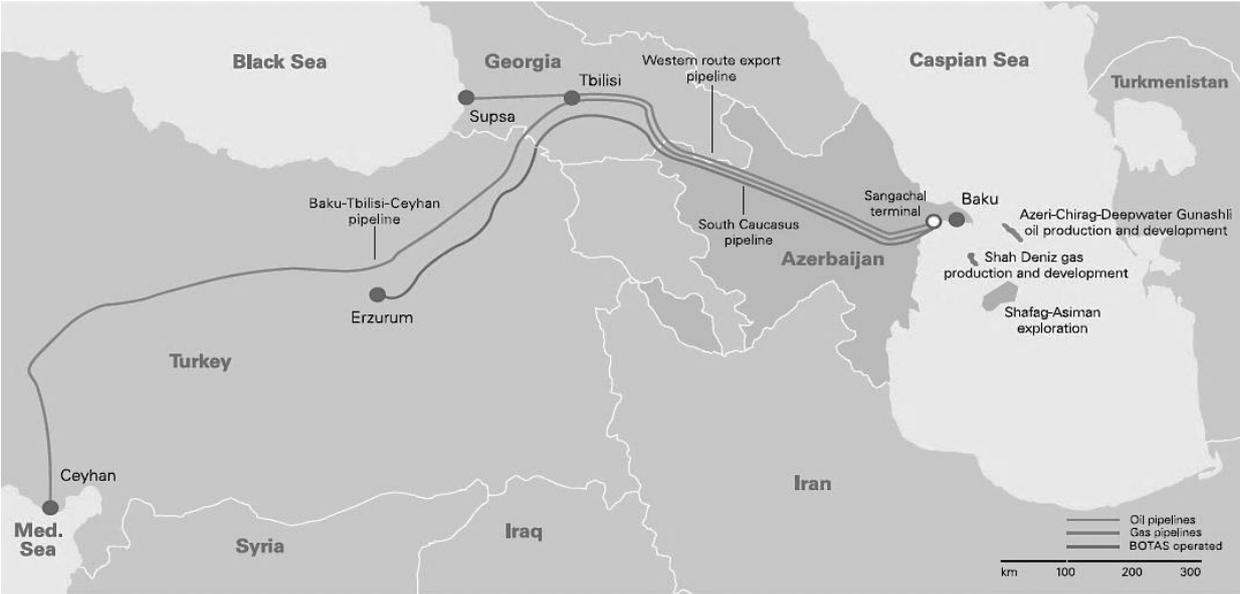
Source: International Crisis Group 2009: Nigeria: Seizing the Moment in the Niger Delta, Africa Briefing N° 60, Abuja: International Crisis Group.

Figure 2: Map of Nagorno-Karabakh



Source: International Crisis Group 2011: Armenia and Azerbaijan: Preventing War, Europe Briefing N° 60, Tbilisi: International Crisis Group.

Figure 3: Map of BP-operated pipelines and related projects



Source: BP 2012c: BP in Azerbaijan. Sustainability Report 2011. Building a Stronger, Safer BP, in: [http://www.bp.com/liveassets/bp\\_internet/globalbp/STAGING/global\\_assets/e\\_s\\_assets/e\\_s\\_assets\\_2010/downloads\\_pdfs/BP\\_Azerbaijan\\_sustainability\\_Report\\_2011.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/e_s_assets/e_s_assets_2010/downloads_pdfs/BP_Azerbaijan_sustainability_Report_2011.pdf) (6 March 2013).