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DIIS Brief

Understanding Multinational Corporations in War-torn Societies: Sudan in Focus

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There is a clear starting point for engaging Multinational Corporations (MNCs) in war-torn societies: understand the factors that determine the behaviour of these enterprises in the instable and insecure environments in which they operate. It is certainly a worthwhile objective considering the immense influence, whether deliberate or not, MNCs have on many civil wars in the developing world. Just as MNCs can act as sources of economic and social development, they can also factor into the reasoning of contemporary civil war.

A deeper comprehension of MNC strategic behaviour will allow policy-makers to design and implement more effective initiatives that assist corporations in avoiding any aggravation of conflict through their operations. This DIIS Brief encourages forming a better understanding of MNC decision-making in war-torn societies by providing an analytical tool to organize the various instrumental factors pertinent to individual corporations. Based on extensive research conducted on international oil companies in Sudan, a framework is suggested to classify individual MNC behaviour. This allows for the development of knowledge on international corporations in war-torn societies that can be utilized to reflect against outcomes in policy initiatives.

Introduction

What do policy-makers at national governments, international organizations, aid agencies, and non-governmental organizations need to know about Multinational Corporations (MNCs) in war-torn societies? The answer is not simple to provide. However, there is a clear starting point: understand the behaviour of MNCs in the instable and insecure environments in which they are engaged. It is certainly a worthwhile objective considering the immense influence, whether deliberate or not, MNCs have on many civil wars in the developing world.

Some of the world's most enduring intra-state wars and persistent bouts of civil strife have one telling factor in common: the overwhelming influence of natural resources in promoting and exacerbating violence. These resources have allowed many conflicts to be self-sufficient with extractive industry corporations providing the vehicle for domestic actors to realize value from local assets through the global marketplace. In Colombia, Angola, Nigeria, the Democratic Republic of Congo, Sudan, the Caucasus, Myanmar, and elsewhere, international companies have been linked to civil war through the extraction of natural resources such as oil, natural gas, timber, diamonds, and other precious metals. Just as MNCs can act as sources of economic and social development, they can also factor into the reasoning of contemporary civil war. MNCs can have a negative influence on conflict by upsetting environmental and social balances in the local communities in which they operate and by financing unaccountable, often repressive host governments.¹

The vast majority of MNCs would prefer to avoid such results. The financial and political risks of operating in conflict-prone areas are already high enough, with emerging reputation and liability costs heightening the precariousness of the situation. Likewise for the U.N., aid agencies, and NGOs that aim to ensure MNCs act as promoters of peace and development rather than represent a further complication in highly volatile political and social dynamics. The prerequisite for getting to the positive outcome is garnering a thorough understanding of the behaviour of MNCs. This allows the best policies to be designed and implemented that assist MNCs in avoiding the aggravation of conflict through their operations. However, while the impact of MNCs on war-torn societies has been well documented, there is a dearth of knowledge concerning the factors that guide the strategic behaviours of these enterprises.

Although MNCs ultimately hold objectives that are largely divorced from the typical endeavours of U.N. agencies and NGOs, a lack of comprehension for the drivers of MNC behaviour does little to support efforts to develop policies that allow the presence of these enterprises to improve prospects of economic prosperity and political consensus in war-torn societies. This DIIS Brief encourages forming a better understanding of the behaviour of MNCs in war-torn societies by providing an analytical tool to organize the various instrumental factors pertinent to individual corporations. While it does not provide specific advice concerning existing policy initiatives, it argues that policy-makers must examine MNCs as individual enterprises in war-torn societies, not as a homogenous group, and presents an analytical method for doing so.

The Strategic Behaviour of International Oil Corporations in Sudan

The framework presented below is based on research conducted on the operations of international oil corporations in Sudan.ⁱⁱ Oil companies engaged in exploratory and production activities in the Southern Sudan have long been connected to the recently ended North-South civil war between the Government of Sudan (GoS) and the Sudanese People's Liberation Army/Movement (SPLA/M). The presence of oil companies in the country prompted several high profile NGO reports implicating these MNCs as further deterrents to peace in the long-standing and devastating civil war.ⁱⁱⁱ The same trend can be seen in other conflict-affected countries with strong natural resource influences.

The research world has responded to these policy initiatives. However, although studies on MNC behaviour and the influence of international corporations on civil war are growing, knowledge of the former remains significantly limited.^{iv} In Sudan and other war-torn societies, there is a tendency among researchers and policy-makers to group together extractive industry MNCs as one predictable actor. This promotes the belief that the behaviour of MNCs in the same industry is influenced by exactly the same factors. Moreover, reasoning for MNC decision-making is largely only examined to the extent that it provides incriminating evidence of the negative influence of corporations on conflict or highlights limitations of policy instruments that support a positive role for MNCs in conflict transformation. Altogether, further analytical, objective research is required to push amassing exceptions in studies on MNC behaviour over the edge into mainstream thinking.

A deeper analysis of multinational oil companies in Sudan showed that critical differences lie behind the logic of individual MNC behaviour. Each corporation held a different set of domestic and international factors which contributed to the formation of their decision-making calculus. The complexity of MNC decision-making went far beyond any notions connecting it solely to a profit-seeking rationale. Profit maximization is neither the only element of MNC strategic behaviour, nor in some cases, even the dominant factor. Furthermore, a comparative analysis of the similarities and differences between all the prominent oil corporations in Sudan demonstrated that influential factors were interconnected within and between companies. The actions of firms find explanation in those of others in both the domestic and international environment. Factors also had varying priority levels for individual corporations that changed over time. The world of an international oil corporation is certainly not a static one. Altogether, the vagueness of these results is testament to the individuality of the construct of factors influencing each MNC. Nonetheless, there were some visible trends among MNCs in Sudan, allowing them to be classified into three distinguishable groups: First-Movers, Western Juniors, and Eastern Parastatals (See Chart A). While the division exposes that some MNCs are influenced by certain factors more than others, there were also noteworthy differences within the groups themselves.

Chart A: Prominent International Oil Corporations in Sudan	Date of Entry	Date of Exit
First-Movers		
Chevron Corporation (U.S.A)	Early 1970s	1992
Arakis Energy Corporation (Canada)	1994	1998
Western Juniors		
Talisman Energy (Canada)	1998	2002
Lundin Petroleum (Sweden)	1995	Still Active
OMV (Austria)	1997	2003
Eastern Parastatals		
CNPC (China)	1995	Still Active
Petronas (Malaysia)	1997	Still Active
ONGC (India)	2003	Still Active

The First-Movers in Sudan set precedent for future MNCs in two, interrelated ways. First, they revealed that there were multiple, influential factors to consider for MNCs, both internal and external to the firm. Second, despite the existence of lucrative oil reserves in the country, MNCs did in fact exit the

country. International oil companies are not the overall masters of their domain as many observers believe. The emergence of the Western Juniors would solidify both of these trends as well as introduce another. In the scramble to discover and exploit oil, the Western Juniors would face an external deterrent to their internal profit-seeking rationale as international NGO activism grew against their operations. Finally, eastern, state-owned oil corporations demonstrated that they operate under a different set of guidelines from their Western counterparts. There exists a strong political rationality behind their actions.

Thus, there are multiple factors to account for in conceptualizing the behaviour of MNCs in war-torn societies. The complexity seems overwhelming, but once it is recognized – and this is an important step – then there are methods that allow the behaviour of individual corporations to be understood in a logical manner. One such way is to categorize the most prevailing factors and measure their importance to a specific company. While further analysis in Sudan, and comparison to other war-torn societies and other industries, will surely enhance the usefulness of this mechanism, existing research does offer an appropriate starting point.

Understanding Multinational Corporations in War-torn Societies

For those concerned with gaining an overview of MNCs in war-torn societies the initial action must be to understand the nature of these organizations. Just as policy-makers have learned that attaining extensive knowledge on the behaviour of domestic actors in war-torn societies is a requirement in attempting to transform conflict into peace, external actors influencing the dynamics of war and peace also warrant the same treatment. Unfortunately, one cannot engage in generalizations concerning the logic of MNCs. It is however possible to classify corporations following an analysis of their individual behaviour. This in turn allows policy initiatives to be better placed, and avoid the negative results that some decisions have had in the past. All policy decisions have consequences that must be recognized and later, reflected upon to improve future decision-making. Policy-makers need to take decisions based on sound, comprehensive knowledge. One way to develop such capabilities is outlined below.

While this Brief is based on the operations of international oil corporations in Sudan, it can be augmented to understand other cases and different types of MNCs.^v In particular, the Sudan case exhibited that there are three primary areas where factors influencing MNC decision-making originated from:

corporate character, the host-country environment, and the international arena. These environments frame how international corporations can be examined and then utilized to reflect against the effectiveness of policy initiatives.^{vi}

Corporate Character

Each corporation has specific considerations that must be taken into account when deciphering its strategic behaviour. MNCs held varying intentions for becoming engaged in the Sudan, as well as different structural compositions that framed their decision-making. The size of the corporation and the extent of its international activities spell out the capacity it has to develop local resources as well as other options it might lean towards when circumstances in a conflict-affected country become over demanding. Moreover, corporations in Sudan exhibited varying intentions through their operations. The First-Movers and the Western Juniors, as publicly traded firms, operated under a profit-seeking rationale. However, the logic of this rationale was different for each firm. For instance, Talisman's intention for entering Sudan was based on diversifying and increasing its international oil production, while Lundin was keen on developing its concessions through the discovery of significant oil reserves for sale to other MNCs. While each company was aiming to maximize profits and shareholder value through their operations, the method taken to achieve such results each had a distinct fashion.

The last set of oil companies in Sudan, the Eastern Parastatals, had their own reasons for engagement. For these oil corporations the influence of state interest was the principal factor behind decision-making. Profit was not the overall goal; rather it was to secure international oil reserves for their respective national economies and to gain critical learning experiences. In addition, unlike Western MNCs, human rights pressures were almost entirely non-existent for these state-owned corporations and the forging of military, political, and economic relationships between home and host governments represented critical factors in facilitating the expansion of their operations. Collectively, regardless of whether the internal structures of MNCs are directed by distinctive profit-seeking rationales or state interest, external factors in the Sudanese environment were also decisive elements in MNC decision-making.

Host-Country Environment

A critical influence on the behaviour of international oil companies in Sudan came from the long-standing civil war between the GoS and SPLA. Insecurity had both direct and indirect repercussions for oil companies. Violence from the on-going civil war is a constant and dynamic factor in decision-making for all MNCs in war-torn societies and should not be casually dismissed as a factor that firms have complete control over. The civil war made political risk insurance a must for MNCs and encouraged the formation of consortiums to diversify the risk engaging in Sudan entailed. Altogether, insecurity largely influenced MNCs according to the precise areas of operation they held in the country and the shifting contours of war.

The importance of having positive relations with the GoS was crucial to all MNCs operating in Sudan. The relationship fostered with the domestic government would steer the fortunes of exploiting oil companies. Moreover, it depicted how variables influencing MNC behaviour straddle the domestic and international divide, generating domestic consequences from international events and vice versa. Relationships with other domestic political authorities and local communities around a company's operations are also critical. A company cannot avoid becoming part of the local context.^{vii} In this dynamic, home governments and their MNCs took on different types of engagement with the GoS. An active strategy is exhibited by China, India, and Malaysia in providing multi-faceted support for the GoS. A passive strategy was undertaken by European states and their corporations through apparent constructive engagement, subsequently providing Khartoum with substantial revenues through their companies' investments. Finally, Canada and Talisman eventually took on a normative stance in attempting to pressure the GoS to alter its tactics in the civil war due human rights concerns. Thus, the strength of each MNC's relationship with the GoS held implications for the progression, or alternatively the decline, of their operations in the country's oil industry.

The International Arena

Explanatory factors for MNC strategic behaviour in Sudan find significant definition in the dynamics of the international environment. The operations of MNCs created global ramifications for local events. In particular, military operations of the GoS and pro-government forces against civilian populations

in the South led to significant pressure on MNCs, particularly the Western Juniors, from international NGOs and other human rights advocates. These organizations claimed MNCs were complicit in human rights abuses committed by GoS military forces and pushed MNCs to augment, suspend, or even outright end their operations. Regardless of their veracity, these allegations created negative publicity for Western-based MNCs, representing a novel external variable in their strategic behaviour. Moreover, the influence of international NGOs altered the composition of the Sudanese oil industry as Eastern MNCs were able to expand their operations due to the exit of Western firms. Furthermore, from the onset of oil development in Sudan, direct interactions between companies further explained their strategic behaviour. Oil corporations seemingly learned from one another's experiences, some even sharing similar corporate board members. A final factor of MNC strategic behaviour in Sudan was the level of international oil prices. Particularly for the Western MNCs, operating with a profit-seeking rationale, the changing price of international crude was a critical factor in decision-making.

Altogether, there are multiple variables that dictate MNC behaviour, which have influential connections between and within the environments they emerge from. For example, the relationship between a MNC's home and host government can be beneficial or disastrous for their own dealings with domestic authorities. In Sudan, Chevron and the worsening relations between Washington and Khartoum is a case in point. Furthermore, these interlinked factors hold differing and dynamic priority levels for individual MNCs. For instance, the influence of human rights pressures in Sudan was felt more heavily by those MNCs which had fundraising capabilities in American financial markets, given the United States long-time economic and political sanctioning of the African country. However, despite these numerous complexities, the picture can be made more transparent through a simple categorization process (See Chart B). Companies can be examined by first assigning influential factors to the three environments and then determining the most significant variables to that individual MNC. The critical factors in each environment report why a corporation took a particular decision. Furthermore, devising an analytical framework gives policy-makers the capacity to more closely predicate the results of new initiatives and navigate further engagement with international corporations. A simple breakdown of the elements explaining MNC behaviour acts as a guide for understanding these enterprises in war-torn societies.

Chart B: Principal Factors of MNC Strategic Behaviour in Sudan

Corporate Character	Host-Country Environment	International Arena
<ul style="list-style-type: none"> • Size and operational capabilities 	<ul style="list-style-type: none"> • Insecurity from civil war 	<ul style="list-style-type: none"> • World oil prices
<ul style="list-style-type: none"> • Ownership structure 	<ul style="list-style-type: none"> • Host government and other domestic political authorities 	<ul style="list-style-type: none"> • Relationship between home and host government
<ul style="list-style-type: none"> • Activity in host country (example: oil exploration, production, financial partner in consortium) 	<ul style="list-style-type: none"> • Pressures from other international oil companies 	<ul style="list-style-type: none"> • Financial market pressures
<ul style="list-style-type: none"> • Relationship with home government 	<ul style="list-style-type: none"> • Direct and indirect learning through other international oil companies 	<ul style="list-style-type: none"> • Pressures from foreign governments (most notably: U.S.A)
<ul style="list-style-type: none"> • Other international opportunities 	<ul style="list-style-type: none"> • Community Relations 	<ul style="list-style-type: none"> • Disinvestment and boycott campaigns from shareholders and international NGOs

Conclusion

The complexity of MNC strategic behaviour in Sudan demonstrates that adherence to a simplistic understanding of the factors determining MNC decision-making is ill-advised for advocates of peace and development. Unfortunately, Sudan is not an isolated case where a lack of analysis on MNC behaviour has been displayed. There is comparative space in Angola, Nigeria, and Myanmar, among others. Moreover, the wide variety of causes, consequences, and functions of civil war interlinked with MNCs in Sudan also mirrors other war-torn societies in the developing world. This provides further emphasis for recognizing emerging truths concerning the complexity of MNC behaviour. The multiple logics of MNCs in Sudan illustrate that it is not the individual MNC's investment that is long-term, but simply MNC investment as a whole which endures. Indeed, some companies abandoned profitable opportunities, while others knowingly entered a conflict-ridden environment – there was always an available replacement. Thus, the presence of MNCs in war-torn societies with exploitable natural resources is guaranteed.

In light of the detrimental influence of MNCs on civil war in the developing world, the exposed intricacy behind their decision-making calls for a reexamination of how one thinks about MNCs in war-

torn societies. It is worthwhile for policy-makers and researchers alike to leave aside the negative influence MNCs have had on war-torn societies when examining their behaviour – to separate from normative convictions and aspirations of goodwill, and simply analyze the situation based on the facts. Each organization has its own objectives when engaging MNCs on conflict issues. However, it is imperative for these organizations to briefly detach themselves from their institutional subjectivity and examine a company before labeling it, not vice versa. Judgments can be made afterwards based on concrete information and as a result more effective policy initiatives can be developed. MNCs are individual entities, driven by alternative factors. There is no quick-fix to this evolving problem in international relations. However, solutions are available if comprehensive examinations are carried out. This needs to be the first step.

ⁱ For more on these and other related issues see: Ballentine, Karen and Heiko Nietschke (eds) (2005). *Profiting from Peace: Managing the Resource Dimension of Civil War*. Boulder: Lynne Rienner Publications.

ⁱⁱ Patey, A Luke. A Complex Reality: The Strategic Behaviour of Multinational Oil Corporations and the New Wars in Sudan, DIIS Report, DIIS, March 2006. www.diis.dk/graphics/Publications/Reports2006/lpa_complex_reality_sudan.pdf.

ⁱⁱⁱ Christian Aid (2001). The Scorched Earth. www.christian-aid.org.uk. ICG (2002). International Crisis Group. “God, Oil, and Country: Changing the Logic of War in Sudan.” ICG Africa Report No. 39. www.crisisweb.org. HRW (2003) Human Rights Watch. “Sudan, Oil and Human rights.” www.hrw.org.

^{iv} Berman, Jonathan (2000). “Boardrooms and Bombs.” *Harvard International Review*, Vol. 22, Issue 3: 28-33. Sherman, Jake (2001). “Private Sector Actors in Zones of Conflict: Research Challenges and Policy Responses.” New York: FAFO Institute – International Peace Academy. www.ipacademy.org. Swanson, Philip (2002). “Fuelling Conflict: The Oil Industry and Armed Conflict.” *Economics of Conflict: Private Sector Activity in Armed Conflict*. Fafo-report 378. Fafo. www.fafono.no. Bray, John (2003). “Attracting Reputable Companies to Risky Environments: Petroleum and Mining Companies,” in Bannon, Ian and Paul Collier, *Natural Resources and Violent Conflict: Options and Actions*. Washington D.C.: World Bank. Ballentine, Karen and Heiko Nietschke (2004). „Business in Armed Conflict: An Assessment of Issues and Options,” *Die FriedensWarte*, 79. Berlin: Berliner Wissenschafts-Verlag.

^v See Bray, John (2005). “International Companies and Post-Conflict Reconstruction: Cross-Sectoral Comparisons.” World Bank, Social Development Papers. Paper No. 22/February 2005. www.worldbank.org.

^{vi} See the following on current policy initiatives and conflict-sensitive business practices: Banfield, J. et al. (2003). “Transnational Corporations in Conflict Prone Zones: Public Policy Responses and a Framework for Action.” London: International Alert. www.international-alert.org. Banfield, J. et al. (2005). “Conflict-Sensitive Business Practice: Guidance for Extractive Industries.” London: International Alert. www.international-alert.org. Ballentine, Karen and Virginia Haufler (2005). “Enabling Economies of Peace: Public Policy for Conflict-Sensitive Business.” New York: United Nations. www.unglobalcompact.org.

^{vii} See Zandvliet, Luc (2005). “Assessing Company Behavior in Conflict Environments,” in Ballentine and Nietschke (eds), *Profiting From Peace*.