

The Business of Peace



The private sector as a partner in conflict prevention and resolution

This report was written by Jane Nelson, The Prince of Wales Business Leaders Forum. The 'business in conflict' project team, consisting of Nick Killick and Phil Champain, International Alert, Jordana Friedman, Council on Economic Priorities and Harriet Fletcher, PWBLF, provided research, case studies and editorial input and facilitated consultations with business, government and civil society organisations in the United Kingdom and Azerbaijan. These activities will continue to play a key role in the ongoing work of the three organisations aimed at understanding and promoting the role that business can play in conflict prevention and resolution. An external advisory group drawn from business, government and civil society served as a review panel and are listed in the acknowledgements section. The analytical framework for determining the role of business in conflict was jointly developed by The Prince of Wales Business Leaders Forum, International Alert and Council on Economic Priorities.

The final interpretations and conclusions in the report do not necessarily reflect the opinions of the member companies and partner organisations of The Prince of Wales Business Leaders Forum, International Alert and Council on Economic Priorities.

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PRINCIPLES OF CORPORATE ENGAGEMENT IN CONFLICT PREVENTION AND RESOLUTION

1

PRINCIPLE ONE: **STRATEGIC COMMITMENT**

Provide CEO and board level leadership on corporate responsibility issues. Establish policies, guidelines and operating standards that make explicit mention of these issues, including human rights, corruption and where appropriate, conflict and security arrangements. Develop internal management systems, compliance and incentive structures to embed policies into the company's daily activities. Invest in awareness raising and skills development programmes for employees and business partners to increase their understanding and capacity to address the company's socio-economic and environmental impacts. Recruit or contract specialised expertise where necessary.

2

PRINCIPLE TWO: **RISK AND IMPACT ANALYSIS**

Assess the conflict-related risks and impacts of the company's core business and social investment activities on a systematic and comprehensive basis. This requires an understanding of: the nature of the conflict (its causes, stage and location); the role and relationships of other actors; and the characteristics and constraints faced by the company itself. From this basis of analysis it is possible to build performance indicators, targets and strategies for action.

3

PRINCIPLE THREE: **DIALOGUE AND CONSULTATION**

Identify and engage with key stakeholder groups on a regular and consultative basis. Take into account different capacities and power structures and the need to facilitate genuine participation and two-way dialogue.

4

PRINCIPLE FOUR: **PARTNERSHIP AND COLLECTIVE ACTION**

Develop mutually beneficial and transparent partnerships with other companies, civil society organisations and government bodies to address sensitive political and public policy issues and to invest in practical projects. Collective action can address activities such as: advocacy for good governance and anti-corruption measures; negotiating peace; developing voluntary codes of corporate conduct; supporting an open and free media; and creating innovative public-private financing mechanisms for health, education, civic institution building and infrastructure development.

5

PRINCIPLE FIVE: **EVALUATION AND ACCOUNTABILITY**

Identify key performance indicators for assessing the company's social, economic and environmental impacts and relationships. Carry out ongoing measurement and monitoring of these. Aim for independent verification and public reporting of these measures. Assess and account for processes as well as inputs, outputs and impacts. Benchmark results against internal and external guidelines and best practices.

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Executive summary

During the past decade the forces of political transformation and economic globalisation have created a world of new opportunities and hope for some, but increased instability and insecurity for others. As we enter the 21st Century violent conflict continues to affect the lives of millions of people, undermining human progress and economic development. This has important implications for the private sector, which has become an influential player in many conflict-prone or conflict-ridden countries. From Azerbaijan to Zimbabwe, the potential and reality of violent conflict is becoming an unavoidable business issue.

Consider the following statistics:

- There are 72 countries where the security risk for the majority of locations in which foreign business operates is rated medium, high, or extreme for 2000.¹
- Multinational companies are investing more than US\$150 billion annually in nearly 50 countries which fall below the intermediate point in Transparency International's *Corruption Perception Index* – in other words in countries which may be confidently described as fairly to very corrupt.²
- Today, only about 4% of the world's GNP is military related; 96% of the international business community provides civilian products and services. Most of these business sectors have a vested interest in stability and peace.³

The private sector – ranging from large multinationals to informal micro-enterprises – has a vital role to play in creating wealth and promoting socio-economic development. It also has a role in contributing – both directly and indirectly – to the prevention and resolution of violent conflict. There is growing evidence that as market economies become more widespread and as business becomes a more central actor in societies around the world, the importance of this role is increasing.

A few companies are already playing a pro-active role. They are increasingly aware of their negative and positive impacts on society and are developing management and accountability structures aimed at minimising their negative impacts and optimising the positive ones. Other companies are making valuable contributions to society, but are not actively managing or measuring these, let alone thinking about them in terms of socio-economic development and conflict prevention. Some companies, however – and not only those in the arms industry or in illegal sectors such as the drug trade – are being identified as direct causes of violent conflict or as being complicit in

sustaining it in the countries and communities in which they operate. Sometimes this is a genuine result of unintended consequences arising from a company's operations or those of its business partners. In others, it is due to the actions of a repressive or weak government in the country in which the company is operating. This raises the challenge of whether the company withdraws from the country, tries to influence or advocate for better governance, or stays silent. In other situations, it is a result of bad management, lack of awareness and inadequate policies and operating controls within the company itself.

There has been relatively little research on these linkages between business and conflict. Although the arms industry and the impacts of illegal commercial activities such as drug dealing and illicit commodities trading have been extensively researched, relatively little analysis has been carried out on the role of industries such as the natural resource and infrastructure sectors, travel and tourism, consumer goods and banking. In particular, there are limited examples available on the specific role that these industries can play in preventing, creating, exacerbating or resolving conflict and how this differs from and relates to, the roles of government and civil society.

The purpose of this report is to review these issues and linkages and to provide a framework for understanding both the positive and negative roles that business can play in situations of conflict. The report focuses on mainstream legitimate businesses, especially multinational companies, and outlines:

- Why the private sector can no longer afford to ignore the causes and costs of conflict;
- Some of the key factors that determine whether business plays a negative role by creating or exacerbating violent conflict, or a positive role by helping to prevent it or resolve it when it occurs; and
- The practical actions that companies can undertake, with other actors, in preventing and resolving conflict and some of the challenges associated with these actions.

Structure of the report

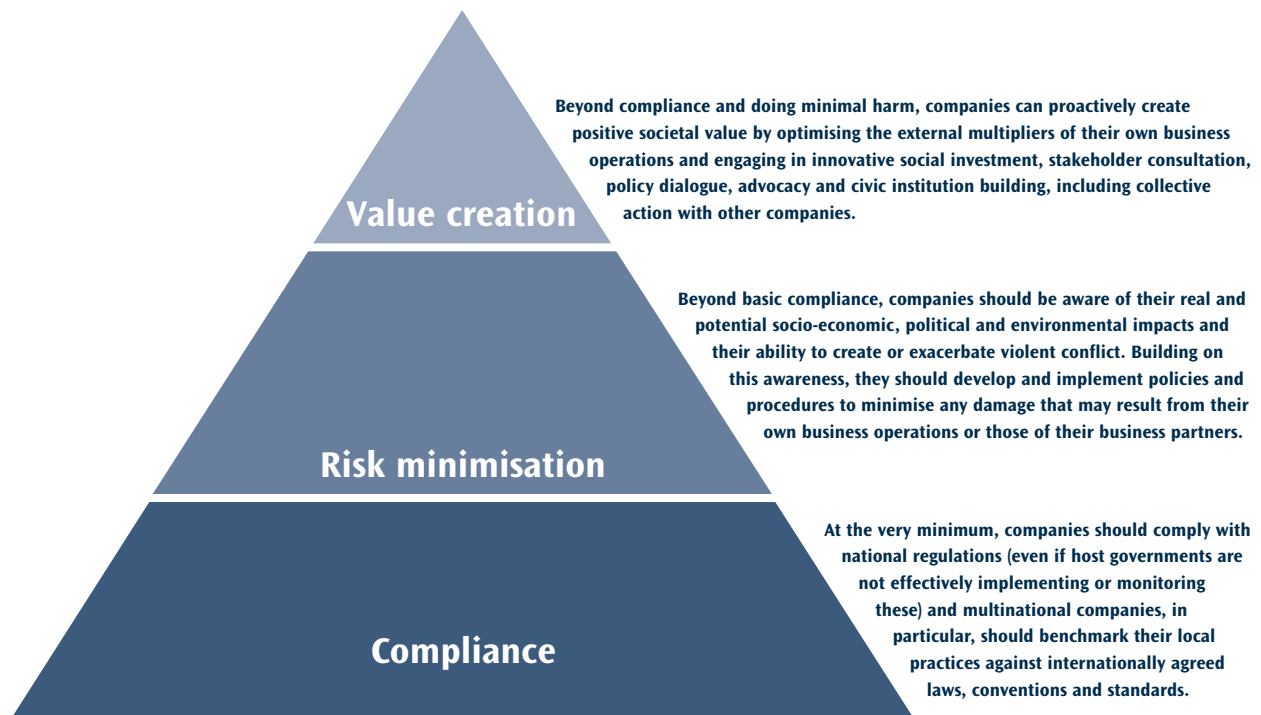
Part 1 of the report reviews the **Business Case for Engagement**. It outlines the changing context of business and the changing nature of conflict, before highlighting some of the key cost and benefit drivers for companies. It concludes that the case for corporate engagement in conflict prevention and resolution is compelling. In situations of existing conflict most businesses, other than those that are directly benefiting from war economies, pay heavy costs and struggle to carry out their operations under unstable and dangerous conditions, where their employees, assets and routes to market are under constant risk. Furthermore, there are potential reputation costs and the threats of international litigation and lawsuits for companies that are accused of complicity with either state or non-state actors that are perpetrating the violence. Over the longer-term, it is clear that the private sector has as much to lose as other sectors of society if economic and social development is seriously jeopardised, which it undoubtedly is when faced by violent conflict. Apart from the costs and benefits and the growing 'bottom-line' imperatives for business to play a more proactive role in conflict prevention and resolution, there is also a strong moral case for greater corporate leadership in today's world where the private sector is an increasingly prominent actor. As Sir Geoffrey Chandler, Chair of Amnesty International's UK Business Group argues, '...to fail to do good when it is in one's legitimate power to do so is rightly condemned by the world.'

Part 2 of the report introduces some key **Principles for Corporate Engagement**.

These can be defined as the management policies and processes that a company needs to establish in order to minimise its negative impacts on society and optimise its positive ones. They are applicable for companies operating in any industry sector, country or community, but have particular relevance in conflict-sensitive or conflict-ridden situations. The principles can be summarised as:

- **Strategic commitment** – CEO and board level leadership on corporate responsibility issues, supported by internal management systems, compliance, incentive and training structures to embed policies into the company's daily activities.
- **Risk and impact analysis** – Assessment of the conflict-related risks and impacts of the company's core business and social investment activities on a systematic and comprehensive basis.
- **Dialogue and consultation** – identification of and engagement with key stakeholder groups on a regular and consultative basis.
- **Partnership and collective action** – development of mutually beneficial and transparent partnerships with other companies, civil society organisations and government bodies to address sensitive political and public policy issues and to invest in practical projects.
- **Evaluation and accountability** – identification of key performance indicators for measuring and monitoring the company's social, economic and environmental impacts and reporting on these to internal and external stakeholders.

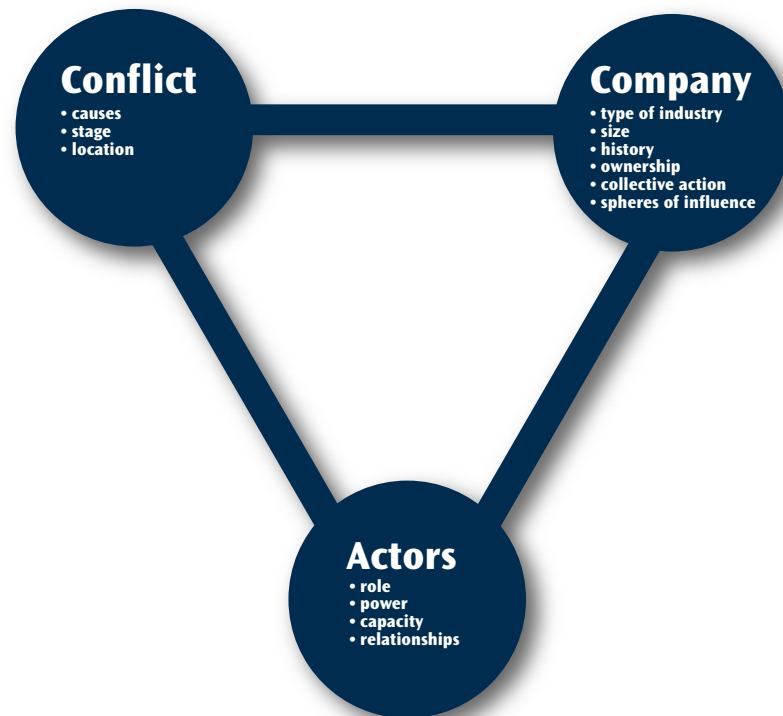
Part 2 also describes three different strategies that companies can adopt in managing their impacts on society. These strategies are not mutually exclusive and can usefully be viewed as building blocks for corporate responsibility. At a very minimum, for example, a company should aim to be compliant with national regulations and where applicable international laws and standards. It should aim beyond compliance, however, to minimise risks and harm from its operations. Ideally, a company should aim to proactively create societal value-added and new business opportunities by optimising its positive multipliers and impacts on society. The following diagram illustrates these three strategies:



Part 3 of the report develops a **Framework for Analysing Corporate Engagement**. It suggests a set of questions to help companies and their stakeholders to analyse the causes, stages, locations and actors of a particular conflict or conflict-prone situation and how these relate to the company's own characteristics. Undertaking this process of analysis can help companies to:

- understand the linkages between their business and the conflict; and
- assess the ways in which the company, acting individually and with others, can play a proactive role in conflict prevention and resolution.

The framework of analysis is summarised below:



Part 4 provides a framework and practical **Examples of Corporate Engagement** at different stages of conflict. It also introduces some key performance indicators for peaceful and progressive societies against which to analyse and benchmark both corporate performance and country performance. The practical examples illustrate how companies can contribute to conflict prevention, crisis management, and post conflict reconstruction and reconciliation through their:

- Core business operations;
- Social investment and philanthropy programmes; and
- Engagement in public policy dialogue, advocacy and institution building.

The performance indicators are drawn from a framework developed by The Prince of Wales Business Leaders Forum in its 1998 report *Building Competitiveness and Communities*. The report identified five main areas in which companies can make a positive contribution to their host countries and communities. These five areas provide a useful framework for thinking about the broad conditions needed for developing peaceful and prosperous societies and for preventing and resolving conflicts. They have been used in this report to develop examples of both country and company-level performance indicators. The five areas are as follows:

- Strengthening economies
- Building human capital
- Promoting good governance (at both the corporate and national level)
- Protecting the environment
- Assisting social cohesion and respect for human rights

The indicators listed in this report are not intended to be an exhaustive list. In practical terms, most companies would probably choose to select a small number of indicators to manage and monitor on an on-going basis. Different indicators will be relevant for different industry sectors, but the list outlined in the report provides a broad framework that can be adapted by any company or industry sector.

Part 5 of the report focuses on **Dealing with Key Management Challenges**. It reviews some of the practical and strategic dilemmas that companies face when they are operating, investing, or trading in conflict zones and the processes that they can undertake to address these. The dilemmas include both:

- structural challenges at the macro-level that raise strategic policy issues for corporate executives; and
- day-to-day management challenges at the micro or operational level of the individual enterprise.

The twelve dilemmas or management challenges covered in the report are as follows:

KEY MANAGEMENT CHALLENGES IN CONFLICT ZONES

1 Dealing with repressive regimes – what are some of the issues that companies need to consider in deciding whether to invest or disinvest in countries with repressive or corrupt regimes? What actions can they take to operate in accordance with international standards and encourage better governance if they decide to invest in such countries?

2 Benefiting from ‘war economies’ – are a company’s investments and operations helping to fund or sustain a war economy? If so, what actions – individually or collectively – can be taken to limit negative impacts and improve the situation?

3 Developing a nation’s strategic assets – how can companies that are developing a nation’s natural resources or infrastructure influence the distribution of costs and benefits from these strategic activities and manage the negative social, economic and environmental impacts associated with the ‘honey-pot’ effect of large-scale projects?

4 Managing security arrangements – how can companies best manage their security arrangements, either with state or private security forces, in a manner that protects their own staff and assets without undermining the security of people in surrounding communities and especially without causing human rights violations in these communities?

5 Facilitating or facing criminal activities – what measures can companies take to limit the risk of being a target or conduit for criminal activities?

6 Tackling corruption – how can companies address the challenge of bribery and corruption in their own operations, in the countries in which they are investing, and at the international level?

7 Supporting humanitarian relief operations – what type of contributions can companies make, either through their commercial or social investment activities, to contribute to humanitarian needs and disaster relief?

8 Engaging in diplomacy and peacemaking – is there a role for the private sector, either on an individual or collective basis, in the sensitive area of diplomacy and peacemaking? If so what are some of the issues to consider?

9 Rebuilding trust – how can companies help to protect or rebuild social capital, such as interpersonal relationships and formal and informal networks and associations, which may be threatened or destroyed in situations of conflict?

10 Creating cross-sector dialogue and partnerships – what types of relationships can companies establish with civil society and governmental organisations to address areas of common interest in preventing or resolving conflicts?

11 Ensuring accountability – in conflict situations what are some of the key issues that companies need to consider in measuring and reporting on their impacts to a wide range of stakeholders? What are some of the most effective tools or mechanisms for engaging with these different stakeholders?

12 Limiting the means to wage war – what role do defence and other industries have in helping governments to decrease and control the trade in arms, remove arms already in circulation and undertake security sector reforms?

Although reviewed separately, there are strong links between most of these challenges. In many conflict situations a company will have to address several of them at the same time. Each of them is the subject of differing perspectives from business, non-governmental organisations (NGOs), governments and the media and is worthy of a detailed report in its own right. This report aims only to:

- highlight some of the key issues and different opinions relating to each challenge;
- raise some critical questions that companies need to ask in order to take action; and
- offer some examples of recommendations, partnerships and corporate actions that are currently being undertaken to address these challenges.

It would be possible to develop individual company, industry-wide or international guidelines and standards for most of the eleven challenges outlined in Part 5. In several cases, such as dealing with security arrangements, tackling corruption and supporting humanitarian relief operations, there are already efforts underway to do this. These efforts are being led by a variety of different actors ranging from industry groups, to national or international governmental bodies and the NGO community. Examples of some of them are included in the report.

Scope of the report

The two core subject areas that underpin this report – the **prevention and resolution of violent conflict** and the **role of business in development** – are areas that have been extensively researched and documented on a separate basis. This report cannot capture all the complex details of each of these two subjects. What it aims to provide is a general framework for analysing the linkages between the two, supported by examples from different industry sectors, geographies and conflict situations.

Such linkages are themselves highly complex. It would be simplistic, and in many cases incorrect, to suggest that non-contestable, causal relationships exist between them. In particular, it would be incorrect to assume that there is a linear conflict-economic development-peace continuum. In many situations economic growth does indeed help to improve situations of existing or potential conflict, but not always. If the benefits of economic growth are unequally distributed, for example, this can increase the potential or existence of conflict rather than decrease it. In such cases private sector investment can have ‘net’ negative impacts rather than positive ones, no matter how good the intentions of these investments. Equally, in most post-conflict situations there is the continued likelihood of violent conflict re-emerging if economic development is not accompanied by the strengthening of social capital and civil institutions. Again, the role of a particular company or industry sector can be positive, negative, or a combination of the two, depending on the specific situation. Having said this, there is little doubt that economic progress is all but impossible in situations of sustained conflict, except for a minority of interests that benefit directly from war economies. In short, the relationship between violent conflict, economic development and the role of the private sector is often a complex and situation-specific one. A core aim of this report will be to explore some of these complexities and dilemmas.

Given the complexity of the issues covered, the wide variety of definitions in use and the diversity of opinions that exist on the subjects of corporate responsibility and conflict, the report is based on a number of ‘starting assumptions and definitions’. These are outlined in Appendix I. They relate firstly to the terminology used in the report to describe the different stages of conflict and corporate responsibility. They also cover the fact that this report focuses on multinational and large national companies working within legal frameworks and pursuing legitimate business objectives. Whilst recognising the importance of small and medium size businesses and the serious impacts of illegal or illicit commercial activities in most conflict situations, the report does not focus on these

other than in terms of their linkages to legitimate, large-scale companies. Nor does the report cover the arms industry in any detail, which has been extensively researched elsewhere, but it summarises some key issues for controlling arms in Part 5. In terms of geographic focus, the report looks mainly at countries in transition – mostly developing economies and countries in the former Soviet bloc – although it recognises the potential of localised violent conflict in OECD economies.

Every example included in the report is worthy of a detailed case study to capture the complexities and different opinions involved. In the interests of space and in order to provide a comprehensive overview of the linkages between business and conflict, a decision was made to use these examples as illustrative vignettes and brief profiles, rather than to provide detailed and lengthy case studies. Some of the cases that have been written by other people are listed in the bibliography and website addresses are provided for most of the examples profiled.

Key messages from the report

Drawing on examples from over 30 countries and from a variety of industry sectors, the report concludes with the following key messages:

1. The business imperative for action

Domestic and multinational companies have an increasingly important role to play in conflict prevention and resolution. In today's global economy they have a growing commercial rationale for playing this role, in order to avoid the direct and indirect business costs of conflict and to reap the business benefits of peace. They also have a moral imperative and leadership responsibility, given the increasingly central position of the private sector as decision-makers and influencers at the national and international level.

Almost all companies, in any industry sector, have an interest in helping to build peaceful and prosperous societies and a role to play by contributing to: equitable economic development; human development, especially education and health; environmental sustainability; good governance; social cohesion and respect for human rights.

Certain companies and industry sectors, most notably the defence, natural resource and infrastructure industries, have a particularly important responsibility to understand and address their direct roles as potential causes of conflict. Others, such as banks, travel and tourism companies and companies providing products and services to humanitarian agencies, also have a direct and growing role in conflict prevention and resolution.

2. Strategies for individual corporate action

In managing their wider societal impacts, companies need to move beyond strategies of compliance and risk minimisation, although these are necessary 'starting points'. Their goal should be to pursue strategies of pro-active, systematic value-creation, aimed at creating positive value for as many stakeholder groups as possible, including, but not exclusively, shareholders.

Companies can create societal value and enhance shareholder value in three main areas of corporate activity or spheres of influence. These are: their core business operations (in the workplace, the marketplace and along their value chains); their social investment and philanthropy programmes; and the way in which they engage in public policy dialogue, advocacy and institution building. All three have relevance for corporate engagement in conflict prevention and resolution.

In dealing with conflict, companies also need to recognise the dual challenges of addressing practical problems at the level of the individual company's operations (over which the company has some control) and structural problems at the regional, national and international level (over which the company has less control, but usually some influence, especially if operating collectively with other companies and actors).

Linked to the above, multinational companies need to develop systems and competencies for addressing conflict at different management levels. Staff at the head-office, for example, have a key role to develop global frameworks for corporate values and management systems. It is the line managers, however, especially country officers and local plant managers, who must have the skills and capacities to deal with situation-specific issues within these frameworks.

Companies also need to adjust their external communication strategies from assertion to accountability. The traditional role of corporate communications and one-way public relations must evolve into a more complex structure of multi-way stakeholder engagement, ranging from dialogue and consultation to accountable reporting processes.

3. The importance of partnership

Apart from ensuring compliance, minimising risks and creating value in the way they manage their own individual operations and stakeholder relationships, companies can engage with each other in collective action. This can be especially valuable in addressing politically sensitive issues, such as bad governance, corruption and human rights abuses.

Having said this, business cannot be expected to 'do it alone'. The enabling framework for preventing and resolving violent conflict must first and foremost be in the hands of governments – at the national and international level. The private sector can support and influence government action, but corporate engagement cannot, and should not, be viewed as a substitute for good and pro-active government. This is the case in all societies, but especially those ridden by conflict.

Linked to this, new types of cross-sector partnership between business, government and civil society will be absolutely critical in building peace and preventing or resolving conflict. Although not easy to achieve in practice, such partnerships can be valuable mechanisms for addressing policy issues, mobilising resources and improving mutual trust and understanding between different groups in regions of existing or potential conflict.

4. The need for leadership

Ultimately the challenge of conflict prevention and resolution is about values-based leadership at every level of the company and at every level of society. The question of whether a company contributes to conflict or helps to prevent it, depends on the values, policies and operating guidelines of the company and the way its employees and business partners accept, interpret and implement these. The same can be said for society-at-large. Here the creation or prevention of violent conflict will depend on the values, rules and norms of the society and the way its citizens accept, interpret and implement these. Corporate, political and civic leaders are needed to help shape these values and guiding principles and to provide the incentives and frameworks in which their respective stakeholders must live and operate. Such leaders are needed at local, national and international levels. They have the power to lead their communities, their companies and their countries towards either peace and prosperity, or towards conflict and poverty. Developing future leaders capable of building peace and prosperity in a complex world, is one of the greatest challenge we face in the 21st Century. It is a challenge that government, civil society and business must address, both individually and in partnership. Responsible leadership is the *cine qua non* of conflict prevention and resolution.