GBSM research paper

War profits from the Iraq war; the dirty games of contractors

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Executive Summary

War profiteering is a phenomenon that has increased in recent years due to large privatization since the Iraq war. Private military firms (PMF’s) are entities that sell military goods and services. Military services increasingly provide services previously done by governments like security services. It is an issue because private military firms (PMF’s) overcharge their products and services, they stimulate war by lobbying for more business, there have been corruption incidents between PMF’s and government officials, health and safety precautions for employees are lacking, lack of operational effectiveness and PMF’s cannot be held accountable for offences due to lack of regulations. While privatization can trigger efficiency and innovativeness, the U.S. government as large client loses control in Iraq. The execution of military service contracts by PMF’s in Iraq with governments, international organizations, NGO’s and other companies and individuals has had shortfalls due to lack of accountability and responsibility.

Primary responsibility for this institutional issue lies with the U.S. government that has privatized the war and has yet to make and implement regulations to hold PMF’s accountable for their practices. Yet, responsibility also lies with PMF’s that increase the issue through lobbying and bribing and lack responsibility and ethics in their operations. Iraqi civilians are said to be the victims of these firms since questionable military practices have lead to suffering and aggression, and PMF’s take away jobs that local companies can do cheaper and more effectively. Civil society pays with taxes for the funding of the Iraq war so indirectly pays for the bribe payments to government officials and the profit of PMF’s. The U.S. government will invest less of the budget on national issues which together with traumatized former PMF employees and soldiers creates a burden for society and could harm the economy.

Many NGO’s are raising awareness for the war profiteering which could trigger the government to become more active in regulating PMFs’ practices to create more transparency and accountability. PMF’s could become more active by changing their profit-driven orientation towards a more ethical business approach in order to reduce the issue. By applying codes of conduct and reporting standards, PMF’s can make their business more transparent and apply a more ethical CSR framework. Key is that government regulations will be implemented effectively and enforced by NGO’s plus social reporting of PMF’s needs to be monitored and evaluated by an independent external party. Furthermore, firms need to switch to an active CSR approach in order to conduct business in a more ethical way which will increase their effectiveness and competitiveness.
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1. **Introduction**

The topic of war profits is an underlying issue that currently does not get a lot of media attention in the Netherlands. With multiple wars in last decades the problem of companies, people and governments benefiting from wars is a current issue. The aim of this paper is to give more insight in the world of war profiteers and to find solutions for this problem.

1.1 **Problem Introduction**

War profiteering is a very old phenomenon since there are always companies supplying material to equip armies and therefore profit from war. Companies have become aware that wars itself and the post-war period can be lucrative times in certain. The weapon industry is a simple example of this but there are many more industries and governments profiting from wars while this is not apparent to the public. The largest war currently fought in terms of government expenditure is the Iraq war that started when the United States (U.S.) invaded Iraq in 2003. In order to get more insight into the issue of war profiteering, it is essential to identify companies and other stakeholders within the government and civil society that make excessive profit out of wars. A second step is to research what measures can be taken to combine the efficient (money-driven) attitude of these stakeholders with the equity or ethical attitude to create a better trade off for effectiveness. The current largest war is the war in Iraq so the focus of this issue paper is to identify the war profiteers for the Iraq war.

1.2 **Methodology**

For this research secondary sources were used. The lectures and proposed literature of Rob van Tulder were a good background study in order to apply frameworks and be able to understand the business environment surrounding this issue. Three information sources that were particularly relevant for this research paper were Chapter 10 of ‘International Business-Society Management’ by Van Tulder and Van der Zwart (2006), other literature in the form of books and articles were used plus reliable internet sources were used (can be found under References).

1.3 **Structure**

This issue paper has a clear structure. Chapter two describes the characteristics of the issue of war profiteering and chapter three deals with the consequences. These two chapters jointly form the problem definition for the rest of the issue paper. Chapter four is the diagnosis where specific firms are located as part of the problem where after chapter five deals with possible solutions. Chapter six, Corporate Sustainable Story, deals with the
implementation of solutions. An evaluation of the research is given in chapter 7 and the final chapter gives a concise conclusion.

2. Characteristics

2.1 Definitions

War
This section describes the definition war and especially on war profits. In the historic book The Law of Nations war is defined as “that state in which we prosecute our right by force (De Vattel, 1797, p. 291)”

According to Oppenheim (1952), a war is “a contention between two or more States through their armed forces. Besides for the purpose of overpowering each other and imposing such conditions of peace as the victor pleases”. Clausewitz mentioned a war as a “political instrument of policy, a continuation of political commerce, a carrying out of the same by other means.” He also describes war as a "business competition, which is also a conflict of human interests and activities" or "still more like State policy, which again, on its part may be looked upon as a kind of business competition on a great scale"

There is a distinction between a private and public war. De Vattel (1797) describes that the main difference is that a private war takes place between individuals in the state of nature and a public war takes place between nations or sovereigns in the name of public power. A civil war shows a violent conflict between organized groups within a country that are fighting and trying to take control of the government. Looking at the Iraq war it can be seen as an interstate war. The United States handed the formal control to the interim Iraqi government in 2004, however there are still U.S. and other international troops present in Iraq.

War profits
WordIQ describes the definition of war profits as follow “any person or organization that makes profits, from warfare or by selling weapons and other goods to one or even both of the parties at war in their own in foreign countries”. There is a distinction between the passive war profiteers and those who are active war profiteers. Looking at passive war profiteers shows that those profiteers make profits from a war without influencing the duration and/or
outcome. On the contrary active war profiteers have an interest in starting and extending wars in order to make profits. This paper lays the emphasis on active war profiteers. There are several types of war profiteers present ranging from single persons to whole companies and nations. When we look at the total scope of a war, there are parties like governments, business corporations and military institutions that will profit of the war. They will not only earn profits on the battle field but also beyond the war. Such as getting profits by obtaining orders to rebuild new hospitals, bridges and government institutes.

‘Private military firms’ (PMF’s) are entities that sell military services. Shearer (1998) points out that these private military companies offer military skills that were once only preserved by governments. Armies rely heavily on companies for the daily operations in camps and training facilities. These companies supply goods and services like catering, waste management and power generation. “Their essential purpose is to enhance the capability of a client’s military forces to function better in war, or to deter conflict more effectively (Shearer, p. 73)” Companies supplying armies with goods directly linked to the war like army clothing, weapons, tanks, planes and other equipment are making huge profits from wars. This also includes technological equipment like eavesdropping hardware and satellite cameras that can locate possible enemies. Private security forces that are hired by army officials to assist the military forces or execute missions are another group of war profiteers. In the past they were seen as privately operating mercenaries but in recent decades this has organized into big companies providing forces to guard for example natural resources and borders. Swinger (2006) calls these PMF’s military contractors.

2.2 Dimensions

Macro

Macro dimension is directed to the economic policy of a government and the interaction between the economies of several countries. The political governments occupy themselves for instance with unemployment, total production in a country, the national GDP and concerning about the national security in a country. For example to guarantee the national security of a country, governments could make policy decisions with other governments to guarantee security in certain risk areas. War profiteers on macro level will not be further treated in our research.

The Stockholm International Peace Research Institute (SIPRI) reported that in 2007 worldwide 1339 billion was spent on world military. That is an increase of 6 percent since
2006. This corresponds to 2.5 percent of world GDP and 202 U.S. dollar per capita. SIPRI describes that factors like aspiration to global of regional power status, actual or potential conflicts, and the availability of economic resources are the driving factors in world military spending. The U.S. government is responsible for 45 percent of the total military spending. It had been the largest defence expenditure of the US since World War II. Countries like Great Britain, China, France and Japan are following with a large distance.

Meso
The meso dimension describes the PMF’s. The arrival of the privatized military industry signals new developments in the way that war is now carried out. Over the last decade the emergence of global trade in hiring corporate militans is one of the most interesting developments in warfare. The dimensions of a PMF range from small consulting firms, existing of superannuated generals, to international corporations that to lease out of strike fighters or a whole army of special trained soldiers.

The International Consortium of Investigative Journalists (ICIJ) has done a study in 2002 into the dimensions of PMF’s. They discovered that ninety private military firms are operation worldwide in hundred ten different countries. The exact value of the operating firms can not be estimated because there are small PMF’s which are set up for just one mission but it is certain that there are thousands of employees, trained soldiers and other staff members active in these PMF’s.

The PMF’s have operated in many conflict countries across the world like in Sierra Leone, Ethiopia, Eritrea, Croatia, Angola and Iraq. The department of the US military department with the most powerful armed forced in history, is also a client of PMF’s. The Statistical Information Analysis Division (SIAD) of the United States Department of Defence reveals that this department paid in 2006 a total of 290 billion U.S. dollar of contracts to private military firms. A large part of this amount namely 48 percent (142 billion U.S. dollar) was meant for equipment and supplies. Another part of the contracts 13.5 percent (39.4 billion U.S. dollar) went to Research & Development. The remaining part of the contracts is used by the private military firms to provide services for civilians.

Micro
The micro dimension describes the economic behaviour of separate individuals and firms. In this study the micro dimension is related to the behaviour of a private military firm in general. The political connections are important to a PMF when landing contracts. PMF’s are using political campaign donations and employ lobbyists to influence government officials.
According to article “Warrior for hire in Iraq”, Singer (2004b) describes that the ten leading private military firms spent more than 32 million US dollar on lobbying, while they invested more than 12 million US dollar in political campaign donations (Singer, 2004b, p 3). When PMFs obtain contracts of more than 50 million US dollar of the U.S. government they have to report this to the Congress (Economist 2004). US International Traffic in Arms Regulations and the Pentagon could cancel a contract when a PMF did not fulfil the set of arms transfer and services rules.

Singer (2003 p. 225) argues that “a PMF is not only selling their services to countries and serving as security details for aid organization”. For the PMF’s there are no real limitations as to whom they may sell their services. Singer criticized that many PMF's claim that they execute a strong policy of self regulation, but in practice this has not always been the case.

2.3 Causes and Evolution of the Issue

Over the last five centuries Goldstein (1985) has found that the incidence of great power wars has declined, wars are getting shorter and they are becoming more severe (Goldstein, p.432). In the past many civil wars and interstate wars have happened but through international institutions, ‘the world getting smaller’ and international regulations and cooperation the number of wars has decreased. Mueller (2003) argues that currently it is likely that developed countries will only rarely deal with warfare either themselves or through international organizations and they will have concern about suffering casualties. This viewpoint can be seen as contradictory when looking at the number of Americans that have recently been sent to Iraq and Afghanistan. International terrorism and dispersion, weapons of mass destruction and refugees are topics that could trigger developed countries to engage in wars but civil wars (mostly in developing countries) will mainly be seen as irrelevant to their interests. Mueller argues that “many civil wars have effectively been caused by inept governments” and that the “key to controlling the remnants of war is the establishment of competent domestic military and policing forces (Mueller, p.511).”

Another perspective is that some industries benefit from wars like civil wars in countries with natural resources like oil, gold and diamonds. Seifert and Werner (2007, p. 169) conclude that the chance of civil war occurring in developing countries with dependency on exporting natural resources is much higher than in developing countries that do not have natural resources or are not dependent on exporting this. Interstate wars are mostly fought over resources (even though the public is mislead by other motives, such as the threat of terrorist attacks, to cover up motives of securing resources and making profit). As the number of
inhabitants is most likely to rise towards 9.1 billion in 2050 (Sachs, 2008, p. 166) if no action is taken and the scarcity of resources is becoming a bigger problem every day, it is likely that resource wars will happen in the future by developing as well as developed countries.

In recent years, private firms are having a much larger role in war areas and post-war areas than ever before. At the start of the 1990s, the private military industry emerged by three major causes says Duffield (1999). First with the end of the Cold War where peace in the world returned and many of the soldiers became unemployed. Second with the changing process in the nature of warfare that vague the lines between the soldiers and civilians (like NGO’s). Finally, due to privatization and outsourcing of governmental functions. In the past, governments’ responsibility was to protect society of its own military forces. Moreover one of the main tasks of a government was providing national security for its citizens. This changed radically with the arrival of privatizing and outsourcing in the military area.

By handing military responsibilities over into private hands, the dimension of PMF’s grows. This has lead to PMF’s carrying out the supply and demand of military services. The security gap was filled up by the private market; when situations became too volatile for military forces to provide a secure environment for contractors and international organizations in Iraq, private security companies are contracted to fill the gaps (Bjork and Jones, 2005, p.783-784). Not only size of the private military firms has grown but also the scope of activities became more extensive. Civilians in Iraq could sometimes not distinguish who armed troops are which created violent incidents and has killed employees of PMF’s (Bjork and Jones, 2005, 784). Today, PMF’s are well organized and registered businesses in the international market where they trade and compete openly but where competition is limited. Limited competition and long contracts have been incentives for PMF’s to overcharge for their services and pay bribes to the officials who award these military contracts. PMF’s provide a wide range of military services to a greater variety and number of clients including national Defense Departments, International Organizations, NGO’s and other private firms and individuals.

2.4 Trends and Developments

In the next decade privatized military industry will continue to play a significant and increasing role in international security. The trend toward worldwide privatization of the militaries implicates that the private military services will continue to grow in the future. A report by two Naval Postgraduate students Alabarda and Lisowiec (2007) describes the following variables that will affect the future of the private security sector. These are:
changing nature of warfare, privatization, growing military technology and worldwide increasing number of multinational corporations.

During the Cold War the U.S. armed forces worked well in spite of the bureaucratic structure. Such a structure will not be effective and efficient in the future of warfare. In the future intelligence on the battlefield and of the enemy will be noticeable in all fields, this will create a high development niche for the private military firms. With the rapid changes of war and the requirement to react quickly in conflict situations PMF’s will play a larger role in the future. In the future private militaries will become more technologically developed. An advantage of PMF’s supplying goods and services in comparison to governments is that innovation of technical equipment and intelligence will increase more rapidly which can prevent wars in the future or give the parties that contract the PMF’s a competitive edge. On the contrary, a PMF contracted by one government can also be contracted by a rival party.

Two main trends have been identified to have affected the war profits in recent years or that will have an impact on the war industry in future years.

**Hegemonic position of U.S. on the downturn**

Kondratieff waves are economic cycles that last approximately 50 years. Goldstein (1985) has scientific evidence that these long economic waves are closely connected with long war cycles. For years, the U.S. has been seen as the ‘big leader’ of the world; a hegemony. The U.S. is on its downturn since it has lost its productive edge, then its financial edge and now all that is left is their military edge. Since one Kondратieff wave is ending and a new has to come up there is a sense of turmoil or insecurity in the world. European countries are trying to grow closer to each other, the BRIC countries are emerging and global warming is evolving as an increasingly important issue for which only global cooperation seems to be a solution. During these developments the United States is trying to hold on to its position.

As Goldstein mentions “The shift toward the next escalatory period then takes place with the decline of hegemony, the weakening of regimes and a shift away from unilateral leadership toward the classical rules of power balancing and alliance formation (Goldstein, p. 434)”. In the coming years the power of the United States will decline and alliance formation is bound to happen. Yet, nobody knows how the United States government will try to keep its leading position. Wars seem to be the only way to maintain their power, natural resources and economic prosperity even though Mueller (2003) implies that developed countries are not likely to engage in warfare. Yet, the military edge is all that the United States has left after losing their financial edge with the credit crisis and their productive edge.
Privatization of War
Privatization comes with its general advantages like efficiency, less state control and market pressure for innovation and lower prices. Privatization of war however comes with a huge regulatory gap for which these general advantages no longer hold. In the past, companies were also involved in the war industry mainly for supplying goods and operating services like doing laundry and catering in the camps. Today, the PMF’s are doing tasks that were previously only done by state armies like for example security operations, military trainings and helicopter servicing. This can be considered as a good development if it means that the U.S. army in Iraq can focus on the main mission, however private firms are used to do tasks that the U.S. army finds too difficult or risky (Bjork and Jones, 2005, p.783-784). These expanded service areas have increased profits of PMF’s tremendously.

Besides increasingly making profit from wars, it creates a problem of responsibility and accountability. Senator James Webb of Virginia questions “who is holding private military contractors accountable for the quasi-military work that they are doing for the United States in Iraq”, in an interview with the Roanoke Times (2007). The consequence of the current privatizing of war is that these firms temporarily contract civilians for assignments in war areas but regulations are not in place if something goes wrong. These companies or temporary employees are hardly trialled for criminal offenses since they do not fall under the uniform military code and health insurance payments for post-traumatic stress disorders are hardly paid. So these PMF’s can be seen as being above the law; they make huge profits and if employees are hurt or criminal offences are committed they are hardly ever penalized.
2.5 Relevant Stakeholders

The relevant stakeholders can be divided according to the triangle relationship; state, civil society, and market (Van Tulder, 2006). According to Van Tulder (2008) the issue war profits is situated between state and business in the triangle. However all three major groups are stakeholders somehow.

Source: Lecture Van Tulder, 18-09-08, Rotterdam: RSM.

State

Most wars fought are between nations or between state and rebel groups. States are therefore for a large part the owners of the issue war profits. They are preliminarily responsible stakeholders for the execution and prevention of wars. Where there are wars, there are stakeholders profiting from wars. States involved in wars also directly make businesses profit by contracting businesses for war supplies and equipments. These military contractors supplying war equipment, security, logistics, operational services and reconstruction need to take part in tenders for which the contract usually gets awarded to the company with the lowest bid. If PMF’s are from the same country, in this case the U.S. governments receive taxes over the profit these firms make which they can invest in warfare again so it can be seen as a vicious cycle.
Another element is that national defence officials have been accused of taking bribes from companies in order to award them the contract. The regulations for fair tender procedures are sometimes not employed and the contract is for example given to familiar companies or companies that pay bribes. Governments always need to make choices for expenditure of their budget; when a large amount is spent on war activities this can have consequences for the national economy. For example, a lower amount is spent on improving education in the U.S. which can lead to lower educated civilians and more unemployment. Other institutions and businesses within the U.S. could also face less government funding or purchases.

Civil Society
One should bear in mind that contractors do not only have contracts with state like the Department of Defence or National Army, Navy, Marine or Air Forces. Companies also have contracts with Non-Governmental Organizations like ICRC, CARE and Oxfam, International Organizations like the United Nations, African Union and NATO and other private sector companies and individuals. Bribes therefore can also be paid to NGO’s, international organizations and other company officials. Direct stakeholders are the civilians in the country of war who are often severely affected by the total state of despair that war brings. Wars of state are paid with taxes of civilians so they indirectly pay for the profits that PMF’s make. Also, civil societies of nations not involved in the war are stakeholders. Through commercials by mainly NGO’s they are persuaded to donate money to the victims. Security and peace missions of the United Nations can send for example Dutch troops to Iraq that are paid for by Dutch taxpayers. NGO’s engaged in human rights, poverty and other war related issues can be a stakeholder in terms of raising awareness for the war profiteering issue and by taking action to build up the war destroyed country.

Business
Next to the businesses that directly profit from wars, like weapon producing firms, and private military contractors, other business are also stakeholders. It is often not realized that there are many business who are more directly involved then they may seem. For example ordinary food and office material suppliers of the defensive departments of nations could be considered indirect profiteers of war. As mentioned under government, firms in other industries will be likely to have less purchases and investments by the government since a large amount is spent on the department of defence. This is described in depth in chapter four and five.
3. Consequences

3.1 Scenarios

The main issue of war profiteering by PMF’s can be subdivided in the following consequences that will increase in importance in the future since the military contracting industry is getting bigger.

*Increasing war profits*

Due to increasing privatization the profit derived from warfare is increasing. Governments outsource warfare tasks to privatized companies which means that taxpayers indirectly pay for the profits that these private military firms get. However increasing war profits are not necessarily bad. For innovation and realization of new technologies companies need to be stimulated. One of the best ways to do this is by competition and a foresight on profits.

*War Stimulation*

One of the major drawbacks of providing certain companies with war profits is that they depend on wars. Therefore they will do what is in their power to stimulate war making. All the major war profiting firms have lobbyist working for them. This is the case not only for companies contracted by the government, but also for businesses that are in resource industries. It has been speculated that resource firms initiate and stimulate wars to take advantage of the resources of countries involved in these wars. Moreover, the U.S. government has been accused of paying huge amounts to lobbying firms to change people’s perception on the Iraq war. Yet, no official records can be found on this.

*Corruption*

The past has shown that some officials that reward contracts to the lowest bidder take money from certain companies. Although it has not been officially investigated the current vice president of the United States, Dick Cheney, has received suspicious payments from his former employer of oil services PMF, Halliburton. Cheney was chief executive officer for Halliburton before he became vice president. Next to a golden parachute after he stepped down from his function, he also received a so called deferred compensation payment. However to many people this payment is suspicious because Halliburton was awarded a contract for rebuilding large parts of Iraq and exploiting the Iraqi oil fields (Independent, 2007). These contracts are worth billions of dollars, and therefore a suspicion of corruption is quickly made.
**Lack of Health Precautions**

The employees that PMF’s hire are civilians who are not trained like national militants since they were ‘only’ hired to do jobs like technicians. Singer (2005) member of the U.S. Council on U.S. Foreign Affairs agrees that safety is an issue and that these employees are often subject to greater risks and dangers than their military counterparts. “Private military contractors have suffered an estimated 175 deaths and 900 wounded so far in Iraq (precise numbers are unavailable because the Pentagon does not track non military casualties) more than any single U.S. Army division and more than the rest of the coalition combined.” (Singer, 2005). Besides the insufficient security of PMF employees, another problem is the health problems when they return home. Especially in the United States, many civilians do not have insurance and even when they have, privatized insurance companies have all sorts of clauses that make it almost impossible to receive health care for problems like post-traumatic stress (Singer, 2005). U.S. veterans have guaranteed medical care since they were hired by the government, however PMF’s can not be held responsible due to current lack of regulations.

**Lack of Accountability**

Already highlighted in the previous issue, accountability for PMF’s in war areas is difficult at the moment. An example of lack of accountability given by Singer (2004) is that several employees of DynCorp were accused of engaging in raping women, forging passports and purchasing illegal weapons. However none of these employees were ever criminally prosecuted due to the absence of law in this industry. Bjork and Jones (2005, p. 792) claim that the lack of a regulatory framework can indirectly intensify the aggression towards the NGO or state troops that a PMF secures due to the questionable tactics used by private security personnel. This could explain the fact that relatively many PMF employees have been killed in Iraq.

**Lack of Effectiveness**

Privatization only works if the private sector can do something faster and/or cheaper than the public sector can. For example, PMF Halliburton has been accused of charges like overcharging gasoline to billing for services that were not delivered. Together with the alleged bribes and other corruption, the efficiency and cheaper price of private firms over public services can easily be disputed in this branch. More importantly as Perlo-Freeman and Sköns (2008) mention, effective outsourcing of military services needs good monitoring and evaluation of contractor (and subcontractor) performance but due to lack of competition and long contracts this is hardly done which places PMF’s above the law. Another factor is that Iraqis could do many of the military services performed by PMF’s better, faster and cheaper.
themselves (Countercorp, 2005). A lack of effectiveness can also be perceived as lack of ethical responsibility because a better combination of efficiency and ethics leads to higher effectiveness (Van Tulder, 2006, p. 384).

3.2 Issue Ownership

In the case of war profits it is not possible to appoint one party who is completely responsible for the issue. It is instinctive to first address it to the ones who actually receive the profits; however the ones paying this profit are also responsible. In the issue war profiteering businesses who engage in war business are part of the problem. The companies or often governments who contract and pay these businesses also add to the problem. Paying businesses for military services and letting them make a profit could increase efficiency and innovation thus it does not have to be a problem. These businesses need to make a profit else they will not exist. The problem lies in the lack of competition in some areas and the lack of accountability. Government officials are not always paid well enough and are therefore vulnerable to corruption. When this occurs the companies will get the contract not on the basis of their competitive strengths. Civil society is also partly the owner of the issue since in many cases the profit making businesses are paid with their taxes. It is their tax money that is wasted on excessive profits. The issue ownership is therefore for all three parties, it is a continuous circle.

3.3 Expectational Gaps

Expectational gaps are “created when stakeholders hold different views on what acceptable corporate conduct is and/or should be with regard to societal issues (Van Tulder and Van der Zwart (2006), p. 158)”. One could say that the issue of war profiteering and its underlying issues are ideal gaps since there is an inconsistency of norms, values and ideals. Issues that can be traced back to differences in norms and values are paying bribes, not taking enough safety precautions for employees and permitting employees accused of rapes to keep within the firm while whistleblowers on these crimes are fired immediately. The U.S. government expects PMF’s to stick to the agreements and deadlines they make. However, if a large number of employees of a PMF decide to resign, this will have consequences of delays in their operations.
Parties that hire PMF’s might expect these companies to behave ethically, however lack of accountability and transparency makes this difficult to check and to enforce ethical standards. Iraqi civilians expect U.S. military troops as well as private military troops to behave according to ethical standards. Private military troops having a casual dress-code could be mistaken for violent terrorists and civilians could expect the norms and values of private military troops to be the same professional, rule based approach as foreign state troops (Bjork and Jones, 2005, p. 783). Former employees of PMF’s who came back from war areas expected to be treated like former U.S. national soldiers who will medically be taken care of if necessary however these services are not applicable to non U.S. state soldiers. Many expectational gaps created by these issues can be resolved by regulations; this is described in the next paragraph.

3.4 Regulation Possibilities

The issue of increasing war profiteering has an unsettled regulatory gap. In the current bargaining society no laws exist for these PMF’s. It is clearly an institutional issue where institutional voids need to be filled by regulations to control these firms. The War Profiteering Prevention Act of 2007 that prohibits profiteering and fraud relating to military action, relief and reconstruction efforts is a bill that still needs to be voted on by the U.S. Senate after which it can become law (GovTrack, 2007). This depicts the newness of this issue. From National Defense Departments to operational military troops, they need to abide to strict regulations. Private firms fall outside this military chain of command and justice systems which gives them freedom. Human Right Watch (2004) noted that the virtual immunity of PMF’s was of deep concern in the wake of the Abu Ghraib prison abuse scandal. According to this report “allowing private military firms to operate in a legal vacuum is an invitation to abuse”. Such lack of regulation can be as much of a problem for the military as for the human rights groups.

Militaries in Iraq have had great stress in violent times when private firms delayed, suspended or ended their operations. The country of origin of the PMF needs to enforce regulations so that processes like the hiring of employees, safety precaution measures and the medical care for employees are at the same standards as the military itself. PMF’s should be monitored and evaluated in their operations as well as in their accounting. Subcontractors of the PMF’s also need to be closely watched so ethic standards will be on an equal level, that of state or international morals and regulations. What needs to happen in order to be able to monitor, control and regulate PMF’s is that either individual states will
impose regulations or that clusters of countries will work together in order to get regulations to decrease war profiteering of PMF’s.

Singer (2003) explains that the private military firms carry out military type functions in conflict zones often against local armed opponents. According to Singer the private military firms are not part of the military because they are not bound to a chain of command and also they have not sworn any oath of office. Using legal codes that aim a sharp delineation between civilians and soldiers are not quit useful. Singer indicates that the private military firms do not meet the international definition of mercenary in either legal or analytical terms.

Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD). The rise of private military firms shows an important new development in the way that war is now carried out these days. Unfortunately regulation on this new industry is severely lacking (Singer, 2004). The ultimate problem is that the legal and regulatory issues surrounding the new privatized military industry are very unclear. PMF’s are private entities selling military services. Under international law, individuals who sell these services on their own are generally prohibited. However the definitions that international law uses to identify PMF’s are very vague (Singer, 2004).

O'brien (2002) explains that the legal regulation in privatized military industry will not work. According to O'brien most of the legal regulation problems in the privatized military industry will be solved when the industry implements a permit system. PMF’s will get the license when they meet the compelled conditions. For example soldiers with a police record or soldiers who are dismissed dishonorably should not be take part to missions.

3.5 Impact on Stakeholders

The impact of the war profiteering issue in the Iraq war on the various stakeholders will be shortly described by focussing on the main eight stakeholders.

**U.S. Department of Defence (U.S. government)**

By outsourcing activities to PMF’s the control of the U.S. Department of Defence in Iraq is decreasing while negative media attention on issues in Iraq will have a direct negative effect on civil society’s perception of the U.S.-Iraq war. Yet, by involving private parties this could trigger innovative products like technological intelligence equipment that could allow the U.S. to maintain its competitive edge in the war industry.
**Private Military Firm’s**

PMF’s are expanding in size and in quantity due to the increase in demand. They make more profit but they have to be careful with delays in delivery time and accidents involving PMF personnel, clients and civilians since these things will be revealed sooner or later triggering regulations, accounting standards and monitoring policies. These could slow down the pace in which they do business. The fact that some clients can be persuaded to be bribed, this makes it easy for firms to ask prices above the competitive level which gives them large profits but there is a risk of these practices getting media attention which could ruin a firm’s corporate image.

**PMF employees**

Since the private war sector is relatively new and is not yet subject to international or national regulations PMF employees have a lot of freedom (hardly penalized for criminal offences like rape and other inhumanities) but they also have a lot of risks (health and safety risks). There is a possibility that they are not well prepared and trained enough dealing with issues, other culture and equipment which could put them in dangerous situations.

**Iraqi civilians**

Civilians now need to deal with many different (security) groups from which they do not know what to expect. This creates tensions and can lead to accidents, aggressive attitudes and exploitation of civilians. On the other hand, perhaps PMF’s will do things that the U.S. army is forbidden to do for safety reasons.

**NGO’s in Iraq**

NGO now need to hire PMF’s for security while in earlier times this was done by national armies. If the services are unsatisfactory or unacceptable acts have occurred, it will be very hard to penalize these firms. The safety of NGO employees in Iraq also becomes questionable when they have hired private security forces that later were proven to be inadequate to do the job.

**International Organizations**

These organizations like the UN and NATO also award contracts to PMF’s so the lack of regulations for PMF’s could jeopardize the safety of e.g. UN employees in Iraq and it will be difficult to hold PMF’s accountable for problems or offences.
**Other firms active in Iraq**

As subcontractor of a PMF there will be increasingly more work, if these companies were not used by e.g. the U.S. army in the past. For local firms it probably means a weaker position in the market since most clients will choose to partner with a PMF from the same country (with bribes or not). Transparency, accountability and responsibility of PMF’s is a problem so more PMF’s means more insecurity.

**Civil society**

In the U.S., the Iraq war is largely financed by civil society’s taxes. Quite some people were opposing the war from the beginning and the charges on some PMF’s and on the criminal actions of some of the U.S. soldiers make this image even worse. Many documentaries have been made on the ‘power of military contractors’, NGO’s are actively raising awareness for the issue and the media as well. Through the high prices that PMF’s ask for projects, individual taxpayers are actually paying for the major profits of these private firms. On the other hand, if the threat of terrorist attacks will actually become less than the tax money could be argued to have been worth it. However, war could have the opposite effect and result in divergence between cultures and the threat of terrorist attacks will then increase.

There are NGOs saying that this is exactly what is happening and that the war profiteering attitude in Iraq has made the country the new recruiting place for militant muslims (Countercorp, 2008). Furthermore, U.S. soldiers and employees of PMFs will often be traumatized after having been to Iraq. This is an issue that is hurting the family and friends of someone and this person might never be the same again perhaps even not being able to work which creates a bigger burden on society.

### 3.6 Existence of outspoken Action Groups

Several outspoken action groups exist who primarily publish research articles on the issue of war profit made from the war in Iraq. These are NGOs who want to get attention for their issues and who fight for the creation of regulation. However so far they have not reached enough awareness to fulfill their aims. Below the three main outspoken action groups against making (large) profits from the war in Iraq are presented.

**Center for Corporate Policy**

The Center for Corporate Policy is an American based NGO who has war profiting as one of its current issues. Their campaign Stop the War Profiteers aims to achieve a stronger oversight of the congress on the reconstruction of Iraq (Center for Corporate Policy, 2008). Kickbacks, cost overruns and bad reconstruction call for measures that ensure greater
competition, accountability and transparency (Center for Corporate Policy, 2008). Another aim is that companies that avoid paying taxes or have a history of violations of law should be excluded for taxpayer-funded contracts (Center for Corporate Policy, 2008).

CorpWatch
CorpWatch investigates and exposes corporate violations of human rights, environmental crimes, fraud and corruption around the world (CorpWatch, 2008). They foster global justice, independent media activism and democratic control over corporations (CorpWatch, 2008). One of CorpWatch’s issues is privatization: “Private, for-profit companies are now providing the services that were once entrusted only to the public sector. There’s now a profit to be made even in fighting wars”. CorpWatch has published several articles regarding to war profits made by several big contractors and their ties to the U.S. government.

United Nations
The United Nations is also concerned with war profits and the reduction of it. In a 2001 press release the UN states that the Security Council and the business community should continue work to develop more effective measures to reduce war profits and to target illegal exploitation of natural resources (United Nations, 2001). The UN is concerned with the prevention of armed conflicts, and therefore a party who want to extinguish war profits.

3.7 Link with other Issues

The issue war profit is related to numerous other issues. It may be very obvious that war profit is related to war, refugees and weapon production. Corruption and bribery are often involved in giving out contracts to PMF’s. What might not be initially thought of are human rights, torture, and sexual harassment of which several PMF’s are accused of. What is very important for the privatized war industry is competition. Currently a lack of real competition and the existence of corruption are causing the abuse of war to make a profit. In the picture below a broad overview can be found on a couple of the issues. Indirectly there are many more issues related to war profits.
3.8 Issue Life Cycle

After extensively having described the causes and consequences of war profiteering in the Iraq war, it is important to give an analysis of the position of this issue in the Issue Life Cycle (ILC) of Van Tulder and Van der Zwart (2006). “The effectiveness of any approach to issues depends on the type of gap that exists (Van Tulder and Van der Zwart, 2006, 161)”. As mentioned in paragraph 3.3, war profiteering is an ideal gap where the primary responsibility for stakeholders is unclear. Issue management will be more effective when the issue can first be located on the ILC.

The issue at hand is in the beginning of the growth phase. NGO’s have raised awareness on war profiteering, they have identified the largest war profiteers. CorpWatch monitors PMF’s actions, documentaries have been made and NGO’s serve as watchdog to keep the issue on the agenda (Van Tulder, 2008, p. 3). Companies responsible for the issue do not see profiting as their issue since that is the main goal of a corporation. Denial of bribes and corruption is a logical reaction and PMF’s do not feel the need to act more responsibly in their business operations. Thus there is a negative reputation effect on companies by NGO’s.

Governments do not have regulations in place to increase transparency and accountability of the operations of PMF’s in Iraq. The U.S. government has close ties with companies in the warfare industry therefore can be inclined that the U.S. government will be as inactive as NGO’s allow them to be. Through increasing pressure and awareness the War Profiteering Prevention Act of 2007 was initiated. This bill has not been approved by the U.S. Senate and it is not clear when this bill could pass. Moreover, the international community has not taken measures in the form of regulations to limit war profiteering. This interface issue needs two primary responsible parties; state and government to take the issue to the development phase in the ILC.
4. Problems

4.1 Firms adding to the Issue

Soldiers for hire are not new in the twenty-first century. These days soldiers for hire are part of well organized and competently run Private Military Companies (PMC) (military doc). These companies sell everything from small teams of commandos to massive military supply operations (Singer, 2004). The U.S. military has become one of the prime clients of this industry. From 1994-2002, the U.S. Defence Department had over 3,000 contracts with U.S. based firms, estimated at a contract value of more than US$300 billion (Singer, 2004).

In the recent war against Iraq private military employees handled everything from feeding and housing U.S. troops to maintaining sophisticated weapons systems. It is therefore often called “the first privatized war” (Singer, 2004). Below a list of the ten worst war profiteers of 2004 can be seen. The list is drawn up by the Center for Corporate Policy, a public interest organization who works to reduce corporate abuses and make corporations publicly accountable (Center for Corporate Policy).

<table>
<thead>
<tr>
<th>Companies</th>
<th>Industry</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aegis Defence Services</td>
<td>Security contractor</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>2. BearingPoint, Inc.</td>
<td>Consulting</td>
<td>United States</td>
</tr>
<tr>
<td>3. Bechtel</td>
<td>Private contractor</td>
<td>United States</td>
</tr>
<tr>
<td>4. BKSH and Associates</td>
<td>Lobbying</td>
<td>United States</td>
</tr>
<tr>
<td>5. CACI International</td>
<td>Military contractor</td>
<td>United States</td>
</tr>
<tr>
<td>6. Custer Battles</td>
<td>Security/Consulting</td>
<td>United States</td>
</tr>
<tr>
<td>7. Halliburton</td>
<td>Oil/Military services</td>
<td>United States</td>
</tr>
<tr>
<td>8. Lockheed Martin</td>
<td>Weapons</td>
<td>United States</td>
</tr>
<tr>
<td>9. Loral Satellite</td>
<td>Satellites</td>
<td>United States</td>
</tr>
<tr>
<td>10. QUALCOMM</td>
<td>Telecommunications</td>
<td>United States</td>
</tr>
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These are all companies who profit directly from war, as can be seen there are various industries involved. The companies are contracted by governments, paid of taxes raised by these governments and therefore make profits out of tax paying citizens. Three companies out of different industries will now be highlighted who will be the example of that particular
industry. They all were and are engaged in several severe scandals, of which one will be highlighted.

**Bechtel**

Bechtel Corporation is the largest engineering company in the United States, headquartered in San Francisco. As of 2006 Bechtel had 40,000 employees working on projects in nearly 50 countries with $20.5 billion in revenue (Bechtel, 2008). In 2003 Bechtel Corp. was contracted for the rebuilding of Iraq after the overthrow of Sadam Hussein’s regime, the contract was worth 680 million dollars (Southern Studies, 2005). Included in the contract were rebuilding schools, hospitals, bridges, airports, water treatment plants, power plants, railroad, irrigation, electricity, and more (Southern Studies, 2005). However Bechtel will probably gain much more than the initial contract. USAID officials have indicated that the final amount the project will cost will be worth tens of billions of dollars (Southern Studies, 2005).

Most of the work that needs to be done in Iraq, including operations in nearly every important area of the country’s infrastructure, will go to Bechtel and its subcontractors (Southern Studies, 2005). “This has never been done before an American corporation rebuilding an entire foreign country,” noted Daniel Brian, Executive director of Project of Government Oversight, based in Washington DC. This has raised controversy and many questions because of the strong connections to the Bush Administration.

**Halliburton**

Halliburton, founded in 1919, is one of the world’s largest providers of products and services to the energy industry (Halliburton, 2008). It is based in Houston, Texas and has nearly fifty thousand employees in approximately seventy countries (Halliburton, 2008). In recent years the company has become the object of several controversies involving the 2003 Iraq War and the company’s ties to U.S. Vice President Dick Cheney. Cheney retired after five years as chief executive officers from the company, during the 2000 U.S. presidential election campaign with a severance package worth twenty million dollars (Corporate Narc, 2004).

Furthermore in the year 2004 he received a large sum of deferred compensation from Halliburton and owned a large amount of stock options while Cheney was at that time the Vice President of the United States (Corporate Narc, 2004). Halliburton have contracts that are worth a total of 10.8 billion dollars. Their activities have led to multiple criminal investigations into overcharging and kickbacks (Center for Corporate Policy). These activities have negatively affected the corporate image and reputation of Halliburton. This has lead to the separation of the subdivision KBR that was responsible for all activities in Iraq. From
2007 onwards, Halliburton does not have any ties to operations in conflict zones (Halliburton, 2008).

**Lockheed Martin**
Headquartered in Bethesda, Lockheed Martin is a global security company that employs about 140,000 people worldwide (Lockheed Martin, 2008). The corporation reported 41.9 billion dollar sales in 2007 (Lockheed Martin, 2008). Lockheed Martin is the world's largest defense contractor when looking at revenue (Defense News, 2008). As of 2007, 91% of Lockheed Martin's revenues came from defense (Defense News, 2008). Lockheed Martin is the biggest arms manufacturer in the world, with revenues worth seventy billion dollars. Lockheed Martin remains the king among war profiteers, with satellites and planes, missiles and IT systems, the company has profited from just about every phase of the war except for the reconstruction (Center for Corporate Policy, 2004). Also Lockheed executives commonly are represented on various advisory boards the Pentagon (Center for Corporate Policy, 2004).

**Lobbying firms**
There are no official records but several lobbying firms are also big profiteers of war. They work for the private military firms and need to make sure that those companies are awarded the contracts. It is not officially recorded but lobbying firms are also hired for lobbying in favour of going to war. Although this is well known the U.S. government denies all ties to these kinds of lobbying firms. Professor Foley (2005) claims that the U.S. government has “hired PR firms to help the government ‘sell’ its war, such as the 1991 Gulf War and the 2003 invasion of Iraq”. Currently the U.S. government is suspected of having close ties with lobbying firms who are lobbying against the present government of Iraq, however the U.S. strongly deny any ties (Henry, 2008).

4.2 Dominant Sector Effect

The dominant industry in the war profit issue can be considered the private military firms. The main affect of this PMF’s sector is the lack of accountability these PMF’s have in Iraq. In principle there is nothing wrong with the theoretical concept of war privatization and the contracting of private military firms for fighting wars. However the theoretical concept does not totally work in practice. The government who wants to outsource and privatize war also contributes to the problem of lack of accountability. It is suspected that PMF’s get contracts
by engaging in bribery and corruption. This results in contracts which are overpriced and allow for large sums of profit.

Due to this way of doing business the PMF’s do not have the normal economic competition drive. Also they do not feel responsible for keeping their agreements as stated in the contracts. Their lack of accountability is the reason for many incidents which have happened in Iraq. The employees of PMF’s do not feel responsible for their actions. They work in a chaotic environment in which they occasionally go too far in (mis)using their power. The power they have comes from their elite position as military appointed by the U.S. government but the PMF employees do not have to adhere to the U.S. military rules and regulations. The lack of accountability as effect of contracting PMF’s is a negative side effect of war privatization.

4.3 Dominant Business Models

The dominant business model of the specific companies (Bechtel, Lockheed Martin, Halliburton) exists of making profit, that is the ultimate aim. This business model is comparable to the in-active Corporate Social Responsibility approach of Van Tulder (2008b, p. 7) in which the business perspective is inwardly aimed at generating profit and efficiency in the immediate market environment. Below, the three PMF’s will be evaluated in terms of their CSR approach.

Bechtel
On its extensive website Bechtel does not have any statement on their CSR strategy. It can be concluded that they probably have none, thus they have an in-active approach towards war profiteering.

Lockheed Martin
“We also work tirelessly to enhance the quality of life in communities where we live and work.” Is a statement made by Lockheed Martin (Lockheed Martin, 2008). They engage in volunteer efforts and philanthropic contributions to local communities they work in. A statement that is closed to a CSR statement is the following: “at Lockheed Martin, we are not just in the community, we are part of it. Serving for a better tomorrow” (Lockheed Martin, 2008). However they do not have a specific CSR statement. Also there is nothing mentioned about the issue war profits. They do use profits for philanthropy and state that they do this in the countries in which they work. However it is not noted where these community projects
are taken place. Thus we do not know if they use their war profits and reinvest them back in the Iraq community. If it is assumed they do it can be concluded that Lockheed Martin has an re-active approach towards war profiteering.

**Halliburton**

As one of the few companies involved in war profiteering Halliburton has several and very elaborate statements on sustainability and CSR. They have codes of conduct on contracts with the United States government and on human rights. For several years they also have a corporate sustainability reports. It states numerous actions they do to improve their surrounding world. Just like Lockheed Martin they have special community programs to improve the communities they work in. However Halliburton also does not specify any specific action for the issue war profits. It seems like Halliburton is Corporate Social Responsible, however there are suspicions that they might not be as corporate social responsible as they state to be. It goes beyond the extent of this paper to investigate this appropriately. In section 5.4 Halliburton will be further used as business case.

In a lot of the firm’s value is added by actual production of goods, and in other firms services are used to add value. The target customers of the companies in the private military sector are often the parties at war, this could be governments but also rebel groups. The companies operate as normal multinationals, they all posses very extensive websites with various statements on their corporate governance, customer relations, supplier relations, sustainability etc. However practically nothing can be found on their specific action in countries at war. Often the main activities of these firms are not particularly in the private military industry. For example Bechtel is a very big and historic construction firm who also made the Hoover dam and the channel tunnel.
5. Solutions

5.1 Responsibilities

In the Issue Life Cycle analysis was already mentioned that war profiteering of the Iraq war is an institutional issue where interface responsibility for this issue lies with the PMF’s and the U.S. government. Companies are part of the problem as described in chapter four and they are also part of the solution. To create a solution this issue needs to be taken from the growth phase to the development phase in the ILC. This shift is called the bottleneck in the ILC (Van Tulder, 2006) since it requires an immense shift in stakeholder position by companies and governments from reactive to active.

A shift towards the development and maturity phase does not mean that the issue will be resolved; governments will formulate laws which take years to effectively be implemented while PMF’s formulate codes of conduct but do not really address the issue. Yet, this is the only realistic approach engaging the two primary responsible parties; PMF’s and U.S. government. Since nine of the top ten war profiteers are American firms and the U.S. is their main client this state is said to be responsible. However, when the U.S. would implement regulations these companies could move headquarters to Europe to avoid these legislations. Thus, it is important to use partnership and global cooperation and establish international regulations for PMF’s.

PMF’s are partially responsible for solutions to the issue. The responsibility of firms means that they need to realize that the likelihood of occurrence of an incident like a corruption scandal or immoral behavior of PMF employees is medium to high since there are relatively few regulations. The potential impact on their reputation is something that PMF’s should not risk since NGO’s are using multiple ways like documentaries, publications and demonstrations at PMF headquarters to increase media attention for the issue. Consequently, this issue needs to be proactively managed. Upgrading corporate social responsibility (CSR) activities is a way to proactively manage the issue. Several PMF’s have an inactive CSR approach as earlier mentioned in chapter four. Yet, to be able to work on the posed sub-issues or consequences of war profiteering ethical behaviour is key.
The inward business perspective needs to be replaced from an in-active to active approach (Van Tulder, 2008b, p. 10). PMF’s are concerned about their profitability and productivity. Corruption, lack of transparency, limited secondary employment benefits for employees and condoning unethical behaviour of employees against Iraqi civilians are issues of principles and morals. When ethics become of greater importance within PMF’s many issues related to war profiteering will be decreased. By being efficient as well as ethical in operations this will lead to effectiveness where market position will be improved by good labour conditions at suppliers, high productivity through higher secondary payment benefits (like healthcare insurance) and reducing problems of violent incidents and radical Iraqi civilians by collaboration with local firms. This is what Van Tulder (2006, p. 384) calls a sustainable sustainable competitive advantage.

There is a great threat for issue fatigue for war profiteering. Even though laws are implemented there is a chance that PMF’s only have codes of conduct and still commit crimes like corruption. After the growth phase, the role of NGO’s as watchdog become much less important which is a threat to effectively addressing the problem and could lead to issue fatigue from civil society.

5.2 Sector effect

The current sector effect of the in-active CSR approach of PMF’s is the distress of Iraqis for being largely excluded from engaging in tenders, more unemployment as consequence and the anger towards Westerners for their sometimes inappropriate operations which can lead to divergence between cultures. It is difficult to find other firms who take responsibility for solutions of war profiteering. Overall, local U.S. businesses will benefit from ending the war or at least decreasing the huge expenditure on Defense since this money can then be used nationally to stimulate the economy which can lead to increased profits.
5.3 Business Case

Of the companies under investigation in this paper the company Halliburton has the business framework which represents how other companies could follow their lead.

![Commitment to Sustainability diagram]


**Strategic choices**

Halliburton’s sustainability statement is: “To be welcomed as a good corporate neighbor in our communities; to do no harm to the environment; to provide demonstrable social and economic benefits through sustainable relationships, sustainable technology and sustainable sourcing; and to validate our progress through transparency and reporting.” Halliburton has based its strategic choices on three pillars; Sustainable relationships, sustainable sourcing, and sustainable technologies (Halliburton, 2008).

**Codes of conduct**

Halliburton has a specific code of business conduct for their contracts with the United States government. It states that “all employees involved in the performance of work under governmental contracts are to be adequately informed and sufficiently trained in the policies and practices contained in the Code of Business Conduct and other Company policies specifically relating to government contracting (Halliburton, 2008)”. To prevent their employees from engaging in unethical behavior Halliburton also has a code on human rights. “Although we respect the sovereignty of governments throughout the world, and the responsibility of such governments to protect the rights, welfare, and health of its citizens, we also expect that our employees will always abide by the both the letter and spirit of our Code of Business Conduct and other Company policies and processes, in all of their dealings all over the world.” (Halliburton, 2008).
These codes of conduct and sustainability statements both look very nice however it can be questioned whether they are really implemented and used or just stated. Halliburton’s employees have engaged in unethical behaviour and they are not always adequately trained. In theory they seem to have a perfect legal framework built up, but in practice this is not always executed. Therefore a real sustainable corporate story for the private military industry does not exist.

5.4 Regulations

**Transparency on the Accounting-Side**
According to Singer (2004) a key measure that must be developed to decrease war profiteering would be transparency on the accounting side. The PMF’s have to lift the veil of secrecy that surrounds the war industry. The public numbers in the PMF industry are based on baseline figures or estimates. The numbers of PMF employees and the number of PMF causalities within its operations have not been officially stated. In the same manner contracts are treated as proprietary and thus are not open to public authorities. Singer (2004) argues that transparency ensures the number of employees that are working and what they are being paid. Especially it will become clear how many PMF’s are operating with how many employees in Iraq. With transparency in accounting there will the possibility in the future to appoint the war profiteers.

**New regulation for PMF’s**
New international and national laws have to be developed specifically on the PMF’s and contractors. Deutscher (2008) mentioned that new regulation will make PMF’s to be more involved in humanity, environment and responsibility to society. On national level only South Africa and the United States have a legislation which is aimed especially at PMF’s. According to Deutscher the traditional regulation has only been aimed at traditional mercenaries. PMF’s do not fall under this definition thus the laws can not be used. On international level there is the same problem of outdated legislation which can not be implemented on this modern phenomenon. With the arrival of new international and national laws the regulation on PMF’s will be able to be effectively tackled.

The content of a new law proposal must be based on that PMF’s can be checked and registered and that taking legal action can be taken against abuses. Attribution of responsibility under the existing laws is not present thus PMF’s or their employees who do something wrong in another country cannot be prosecuted in the U.S. (Deutscher, 2008). In order to make PMF’s responsible, national regulations could be constructed and enforced.
PMFs are based in different countries so this makes the issue international. International standards and regulations would make it possible to force these firms to take their responsibility. International regulations are however difficult to construct since different countries perceive the issue differently and there is no consensus with regard to how national militaries should ethically operate let alone what PMFs are allowed to do.

**International regulations: Geneva Convention**

PMFs have the responsibility to keep to the Geneva Convention. The International Committee of the Red Cross (ICRC) has all the conventions on human rights on their website including the Geneva Convention of 1949 of the International Humanitarian Law. The first additional protocol of the Geneva Conventions in 1977 is aimed at the protection of victims of International Armed Conflicts. Act 75.2 describes that acts of “violence to the life, health or physical or mental well-being of persons, murder, torture of all kinds, mutilation and corporal punishment and mutilation shall remain prohibited at any time and in any place whatsoever, whether committed by civilian or by military agents (ICRC, 2005).” This protocol has been signed by the US and most other nations.

New regulation on PMF’s must make it possible that they can be prosecuted in such circumstances. Article 89 is called cooperation and states that “in situations of serious violations of the Conventions or of this Protocol, the High Contracting Parties undertake to act jointly or individually, in cooperation with the United Nations and in conformity with the United Nations Charter” (ICRC, 2005). Thus, there are regulations to restrict violations by PMF’s and doing business more responsibly but the problem is the implementation, monitoring and control of the acts of PMF’s with regard to these regulations.

Soldiers and their superiors need to have the responsibility to report human rights violations. When someone reports a violation a guarantee needs to be able to be given for this person’s security. In new regulations the authorities also need to have the responsibility to prosecute all those responsible for violations. Besides better implementation and monitoring of international bodies, the mindset of employees of PMF’s needs to change in order to create more responsible military service practices.
6. Sustainable Corporate Story

6.1 Interface Challenges

Looking at the challenges from a macro perspective, the issue at hand is definitely an interface issue between public and private parties. The results of the issue war profiting are that PMF’s lack accountability and responsibility. There are some challenges when trying to resolve these issues. The government is a primary actor to impose the necessary regulations on profit-driven firms with regard to accountability and responsibility, but the PMF’s will have to implement the regulations in their business operations which takes time and money. This will increase the cost charged to their clients since the regulations and standards they have to abide to need to be monitored which is expensive, so the cost charged for services to clients increases. Consequently, the government needs to pay higher prices for the PMF’s which could either come from higher income taxes or decrease in expenditure on other topics like education or health care. This will affect the economic growth and the civil society will pay for it so it is a vicious cycle.

When looking at the private military industry, there are interface challenges between these firms and civil society, and governments but also between government and civil society. Through pressure and media awareness from civil society and new regulations from governments, firms can be pushed towards a more responsible way of conducting business. To see if companies ‘walk their talk’ or if they are window-dressing, companies need to be monitored by external parties so this is an interface challenge between market and civil society (NGO’s). Letting an external independent party monitor a firm’s operations can lead to more transparency but also to negative publicity if standards are not properly implemented by the firm.

An interface challenge between civil society and state is engaging in effective partnership by NGO’s and governments to make sure that legislation is properly implemented. Another interface challenge between civil society and market is that the scientific community comes up with business models that firms can embrace in order to deal with the issue at hand (Van Tulder, 2008, p. 5). Another scenario could be that firms are more active in addressing the issue of war profiteering than governments so they demand standards and regulations to get a ‘same level playfield’. However, for PMF’s this has not been seen.
When looking from a business perspective, when clients also become more engaged in the way PMF’s operate they can put pressure on them to create a more attractive CSR approach which will help their corporate reputation. The challenge for PMF’s is to be able to implement their CSR approach while being efficient as well as ethical in their operations. It takes a leader in the PMF field to advocate and implement their active CSR strategy.

6.2 Strategic/Operational Choices

In-active Approach towards War Profiteering
Most businesses of the Private Military firms have an in-active approach towards war profiteering. They do not have any statements considering war related business and profits. The only responsibility the PMF’s think they have is to generate profits which creates jobs and wealth and can therefore be considered a form of CSR (Van Tulder, 2008b). This is an inward looking business perspective. The PMF’s are particularly concerned with doing things right, they try to make sure that nothing goes wrong. In this case CSR means Corporate Self Responsibility (Van Tulder, 2008b). Some of the companies do have a code of conduct but these seem to be just for the form and are not used. Most of the PMF’s have no explicit strategy towards reduction of war profiteering. The companies are relatively indifferent towards the issue, and on top of that they even stimulate wars.

Re-active Approach towards War Profiteering
For the war profit issue there are currently a couple firms active in the re-active approach for example Lockheed Martin. They focus on efficiency but with attention to not making any mistakes, do not do anything wrong just deliver the goods (Van Tulder, 2008b). This is an outside-in looking business perspective. In this stage CSR stands for Corporate Social Responsiveness. Managers react after competitors have done something (Van Tulder, 2008b). Companies legitimize their presence in countries at war by arguing that they help to protect and recover the local society, but without taking direct responsibility.

Active Approach towards War Profiteering
Companies who are following an active approach towards war profits are currently not present in the private military industry. Halliburton would be able to achieve this stage, however they currently only have the theoretical framework in place and not the action according to it. The active approach is inspired by ethical values and virtues. Businesses engaged are strongly outward-oriented and they adopt a positive duty approach (Van Tulder, 2008b). They want to do the right thing. In this case CSR stands for Corporate Social
Responsibility (Van Tulder, 2008b). They have a moral judgment on the war profiting issue. A company who has a reactive approach have strategic goals in their business model on war profiteering. The company takes in this stage (partial) responsibility for the issue. When a PMF would be in this stage they would openly speaks about the moral irresponsibility of wars profits (Van Tulder, 2008).

Pro-active Approach towards War Profiteering
A pro-active approach occurs when the company involves external stakeholders at the beginning of the issue’s life cycle (Van Tulder, 2008b). In the issue war profiting there is currently no company who fits into this CSR stage. Companies who have a pro-active approach would be characterized by interactive business practices, doing the right things right, doing well by doing good (Van Tulder). In the pro-active case CSR stands for Corporate Sustainable Responsibility. To become pro-active a company must acknowledge that the issue can be solved by partnership and issue ownership. Specifically companies should try to find alternative ways for wars. It is unlikely that any PMF will turn to a pro-active approach since they would decrease their own industry size. In the long-term it can be that pro-active firms will emerge that diverse their activities towards peace operations.

6.3 Tools

Codes
A code of business conduct and codes on human rights are useful for all firms in the war profiting industries. They clearly state the responsibilities and rights of the company and of its employees. Especially specific codes on their contracts with governments can be beneficial since these often require unusual circumstances. When these codes are properly implemented and enforced they prevent for example unethical behaviour from employees. If these codes are not properly put into practice, parties involved do not know their exact rights and responsibilities and then it is likely that the codes will be violated. A strong leadership is needed to execute and assess the realization of the codes.

Reporting
Reporting can be a very useful tool to improve the transparency of war profiting businesses. However this needs much more clarity on reporting standards in accountancy. Singer (2004) argued that such transparency on the accounting side will decrease war profiteering. Besides reporting there will be more clearness about the activities of the war profiteers. At this moment public numbers and money amounts are based on estimates. When there is more
transparency on the accounting side agencies like NGO’s will be able to back up there accusation by actual numbers. It is has to be taken into account that accounting standards is not the solution on its own. In accountancy there are many different ways of filling accounts and even different standards. Reporting in general, in accounting and other fields, will make the industry more transparent. Social reporting is also very important with the issue war profiteering. There are many scandals concerning social abuse matters by PMF employees. Key performance indicators can be helpful for measuring progress and are required for internal management and reporting. The trend towards greater international standardization and coordination will help on adding transparency. The Global Reporting Initiative reporting standards in particular are embraced (Van Tulder, 2006, p. 345).

Issue Advertisement
The media is a powerful tool in getting awareness for an issue. In the United States war profiteering is in the media regularly. Several documentaries are made that address the issue war profiteering in Iraq, for example the documentary ‘Iraq for sale’. There are also numerous news items, articles and talk show topics covering the issue. Since the issue is at the beginning of the growth phase in the issue life cycle, advertisement of the issue is very important. This is a big contributor to the awareness of the problem. It is very important for the understanding of the issue for the public that issue advertisement takes place. A drawback of advertising an issue like war profiteering is that the reputation mechanism does not work so well with business-to-business or business-to-government since the issue cannot actively be addressed by civil society in their daily life. Negative publicity for a company producing consumer products could see its sales decline but negative publicity for Halliburton for example cannot directly be addressed by boycotts.

6.4 Processes

Interactive cooperation and dialogue is needed to reach a new and more effective (proactive) understanding of corporate responsibilities within the war industry. This can be done in the form of strategic stakeholder dialogues. A positive effect is that PMF’s engaging in these dialogues will be perceived as bridging rather than buffering (Van Tulder, 2006, p. 360-361). By exchanging viewpoints of current concerns, PMF’s will understand other sides to the issue. In practice however, no evidence could be found on strategic stakeholder dialogues in the war industry.
The scientific debate on how the issue should be resolved or reduced shows that there is no consensus on a solution. Obrien (2002) explains that the legal regulations in the privatized military industry will not work. According to Obrien most of the legal regulation problems in the privatized military industry will be solved when the industry implements a permit system. PMF’s will get the license when they meet the compelled conditions. For example soldiers with a police record or soldiers who are dismissed dishonorably should not be take part in missions.

Professor Foley’s (2005) solution is to give the ‘war-making power’ back to the Congress since they are more transparent than the executive branch where the power on going to war is now concentrated. The U.S. Congress will be harder to influence and the overall debate would be more transparent than it is now. Yet, many researchers like Sachs (2008) and Singer (2004) look at global cooperation to address issues where international organizations play a role in the solution of the issue.
7. Evaluation

Limitations of research paper
One of the limitations of this research paper is the fact that we were only able to research the visible part of the war profiteers. There are many indirect war profiteers that have to be investigated. Another limitation is that many consequences of privatizing war and increasing war profiteering like corruption and accountability are confidential. Issues are put forward by NGO’s but these cannot be verified which makes it difficult to build up factual arguments.

The limitation to our issue paper includes the fact that we only analysed the war on Iraq. This makes it impossible to understand the behaviour of war profiteers and especially the private military firms in its entirety. Furthermore, every war can have different stakeholders and different primary war profiteers so it is impossible to generalize these war profiteers with all wars.

Drawbacks and flaws of the research
A flaw in this research is that 3.1 on scenarios contains different consequences but there is no analysis of different scenario presentations like a low, medium and high scenario level. Another flaw in this research is the lack of focus on the awareness of society e.g. the rise of media attention on war profiteering. Furthermore, time pressure did not allow the authors to give an in-depth analysis of how solutions like reporting standards should be implemented.

Future research
It is advised to further researchers of the topic war profits to focus on corruption within the industry of the private military firms. The lack of transparency is the reason for the untraceable activities of private military industry. Corruption and bribery is the reason for the difficulties of approximating the size of the problem that plays around war profiteers. With information originating from new studies, new active and pro-active CSR business models could be developed for private military firms. Today the media plays an important role in our everyday life. A study into the role of media attention and its effect on the reputation mechanism of PMF’s could provide significant information on the effect of war profiteers.
8. General conclusion

War profiteering will exist as long as there is war. This is in principle not bad but the privatization of war in Iraq has lead to excessive war profits due to overcharging services, bribing, war stimulation by lobbyists, corruption, lack of health and safety precautions for private military employees, no accountability for offences and lack of an ethical business attitude. This institutional issue has two primary stakeholders that are part of the problem and part of the solution. The U.S. government is responsible for outsourcing more military services to private military firms (PMF’s) while businesses keep an in-active CSR approach.

To reduce excessive war profits and its consequences, the U.S. governments could create regulations for PMF’s. Correct implementation is very important and independent NGO’s can be used for monitoring. Since war profiteering is an international issue it will be more effective to have global regulations and standards however this is difficult to implement. Civil society can help to raise awareness so that companies and governments can be triggered to become active in addressing the issue. Companies need to move from in-active to active CSR approach in order to take responsibility for the stated problems of PMF’s and be able to start working on how to resolve these issues. Interactive cooperation and dialogue is needed to reach a new and more effective (proactive) understanding of corporate responsibilities within the war industry. This can be done in the form of strategic stakeholder dialogues.

To increase transparency, responsibility, and accountability, firms can create codes of conduct and reporting initiatives. By applying codes of conduct and reporting standards, PMF’s can make their business more transparent and apply a more ethical CSR framework. Key is that these initiatives of PMF’s are monitored and evaluated by an independent external party. The U.S. government should create regulations regarding PMF’s and effectively implement them with help of NGO’s. Since war profiteering is an international issue, it is important to use partnership and global cooperation and establish international regulations for PMF’s. Besides better implementation and monitoring of international bodies, the mindset of employees of PMF’s needs to change in order to create more responsible military service practices. Implementing all these measures will decrease war profits. They will not any more be as excessive as they are at the moment.
9. Bibliography


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Appendix A: Group process

Friday September 19, 2008 we started by writing a group contract. In this group contract we described our expectations, the activities (timetable) and responsibilities of the group members. It also included the strengths and weaknesses of each member which was helpful and gave us a focus of what we could give each other feedback on. The timetable was used the past week as a guideline. During the first few days we started by searching relevant articles to our issue. By reading a lot of relevant articles we obtained knowledge about the issue and we got more involved in understanding the size of the problem.

By watching a movie together on the topic, we had a group-feeling from the beginning which made it easier to give constructive feedback. Each morning we discussed the progression of the process and we provided each other feedback on the finished tasks. The division of tasks happened on the basis of interest and strengths. Because of the limited time, we made each day a new plan with new tasks that had to be carried out. Next to that we also used both of the feedback sessions to get more clarity on the bottlenecks. Through the use of phones, Internet and particularly using msn messenger we had the possibility to communicate with each other daily several times. The Internet was a valuable communication device for us because most of the time we worked individually. Within the group we worked collegially and we supported each other when it was really necessary.

During the research process every group member worked hard and with a lot of energy in order to finish this issue paper right on time. Time management was a weakness for certain group members however, this week time management was considered a ‘group strength’ since we were able to finish most of the tasks on the agreed time.

Feedback Ali Celik
Before I start I want to thank every group member for his or her effort. We worked very hard to complete this issue paper. I have learned a lot about the manner of cooperating and working under stressful conditions due to a lack of time. Personally it was no easy task to finish everything on time. Through the enjoyable atmosphere it was a pleasure to work with this group. I think we worked well as a group and I think that we, of course, deserve the highest mark.
Feedback Loes Wolthuis
I feel that all group members were very proactive, dedicated and professional which made it easier to work together, focus on the tasks at hand and give each other constructive feedback. It was interesting to work under more pressure than ever before and it has further strengthened my pressure handling skills. Writing this group paper has primarily increased my organizational skills, research skills and teamwork skills. I did not know that we could be so productive in only one week!

Feedback Marieke Slagter
I believe this was the most intense group paper I have made so far. The time pressure made us meet every day, and we were having contact almost constantly. We started immediately and made a good time schedule and had therefore enough time to finish properly and on time. Due to social activities next to making this paper the atmosphere within the group was really enjoyable. Writing this paper has improved my team working skills and I practiced my giving feedback skills.