

Emerging Role of Multinational Corporations as Private Military Companies: Converging International Relations and International Business Perspectives

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Abstract

This paper analyzes the emergence of new role of Multinational Corporations (MNC) as Private Military Companies (PMC). The usage of PMC by the particular state in the areas of conflicts has become newly interesting phenomena especially in the post-cold war. We argue that it was still a lack of understanding about the role of MNC as PMC from both international business and international relations perspectives. This research contributed to both international business and international relations studies by underlying the role of MNC in military-related businesses (combat and non-combat services of PMC) and by contributing to the development of international relations theory by answering whether the emergence of PMC influenced the sovereignty of the state.

Keywords: Multinational Corporations, Private Military Companies, International Business, International Relations, KBR

1. Introduction

The complexity of economic interaction has pushed the emergence of a new business entity in a world economy, so-called Multinational Corporations (MNC). Historically, the presence of MNC has been known broadly and significantly in international business. During 1920s, modern MNC made their first significant appearance started by MNC from United States of America (USA) (Frieden, 2006). Furthermore, The World Investment Report (WIR) 2009, published by the United Nations Conference on Trade and Development (UNCTAD), states there is a total of 889,416 multinational companies (MNCs) around the world: 82,053 parent companies and 807,363 affiliates. In 2008, the largest MNC's sales combined amounted to nearly \$8.5 trillion. It shows that the capacity of MNC as a business entity has become stronger and significant than ever.

Furthermore, MNC widens their operations into other sectors. One of them is in security sector which has been mainly the domain of the state's sovereignty. MNC which active in security sector known as Private Military Companies (PMCs) or Private Security Companies (PSCs). Nowadays, PMC has transformed itself and become significant actor in international security system.

The emergence of PMC cannot be separated from the end of Cold War context. After the end of Cold War, industrial countries made a policy to demobilize their military personnel in order to adjust with international political security conditions at that time (Spear, 2006). As an example, US army which during Cold War has 1.5 million military personnel, then it decreases until a half after the end of Cold War. Some of their former military personnel then join and make PMCs.

The importance of PMC/PSC studies has been growing in the last decade. However, most of them are scholars employing international humanitarian law (Cameron, 2006; Gillard, 2006), human rights (Clapham, 2006), accountability and control of PMC (Cottier, 2006; Perrin, 2006) and law and regulation in particular country such as United Kingdom (See Walker & Whyte, 2005) and security governance in developed countries (Krahmann, 2005). There is also limited study of this subject from international business perspective. This paper contributes in filling the void and in the same time provides new way of analyzing PMC/PSC issues by converging international relations and international business perspectives.

The aim of this paper is to describe the new role of MNC in military sector and the implications toward state sovereignty. First part of this paper describes about the concept of PMC from two perspectives, international business and international relations. Second part examines the case studies of the usage of PMC in three areas—Africa, Balkans, and Middle East countries. The last part offers conclusion of this paper.

2. PMC as an Emerging Business of MNC

Historically, the emergence of PMC is not new phenomena in international security studies. In fact, PMC is as old as war itself and in the form of highly organized entities or as individual foreigners (mercenaries) (Kiernan, 1957; Havelid, 2006). The earliest records of warfare mentioned numerous of outside fighters being employed to fight as a national military personnel. For instance, mercenaries from Macedonians who served in the army of ancient Greek or Roman Empire who hired mercenaries from one Germanic tribe to defend its imperial borders against another (Shearer, 1998). Between 1600 and 1800, it was common to hire foreigners as one's own national forces and to allow citizens join the militaries of other states. Indeed, nationality or country of origin was not primary basis for determining service obligations (Thomson, 1994).

Interestingly, the usage of mercenaries have been existed since ancient history and historically legitimated. It is not a strange phenomenon if a nation-state uses foreigners as their national military personnel because it is normal practices for international society (Shearer, 1998). However, the relations between private military organization and state have its own special characteristic nowadays. As mercenaries, character of private military company is bound in an organization which has professional management like other companies (MNCs).

Defining private military industry is always a problematic issue because there is no absolute definition about this industry. In this paper, private military industry is defined in broad sense, as all of international professional organizations which serve in military services.

In private military industry services, there are two concepts of the industry, so-called PMC and PSC. Among others, Adebajo and Sriram (2000) argue that terminology of PSC refers to MNC which provides military services passively in a highly condition of conflict. On the other hand, PMC tends to be a MNC which provides military services actively like in military training and engaging in actual warfare. In short, the difference between PMC and PSC is in passive and active term of services. In other research, Avant (2005) finds that PSC also provides military operational services actively currently. It means that private military industry which is classified as PSC has overstepped the bounds of its nature. It also indicates that there is a bias in using terminology of PMC and PSC. Therefore, it is hard to treat PMC and PSC too differently. In this paper, terminology of PMC and PSC will be used interchangeable.

Other international relations scholar, Singer (2003) classified PMC into three typologies based on their services. Type 1, PMC which focusing on tactical services. The companies provide their clients military personnel at the forefront of the battle grounds. The companies' clients usually have less military capability and in the position that they have to fight against entity that has powerful military capability. Using PMC services, the clients want to increase their military capability instantly. The companies with battlefield capabilities include Executive Outcomes (South Africa-based), Sandline and Airscan.

Type 2, PMC which offering advisory and training services. The companies provide strategic, operational and organizational analysis that is often integral to the function or structure of armed forces. They usually consist of former senior military personnel (Singer, 2003) who usually have good capabilities to give strategic advice to his clients. One of companies included in this typology is Military Professional Resources Inc. (MPRI), United Kingdom-based. MPRI has 12,000 well trained military personnel, include four generals who have high military decoration.

The basic difference between type 1 and type 2 is that the latter companies in offering consultation services intended to increase military training and management skill of their clients. Security consultation offered by companies has not been used in a direct battle war. The clients are usually not in a highly pressure condition for short term warfare. Their objective in using PMC is to transform their military capacity for long term goals. Even though, in modern warfare, the applications of knowledge and training offered by PMC are as same as the applications in a real warfare (Singer, 2003).

Type 3, the last type, is PMC which providing rear-echelon and supplementary services. The companies in this typology do not participate in the planning or execution of direct hostilities, but they do fill functional needs that fall within the military sphere including logistics, technical support, and transportation. Examples of type 3 PMC include Ronco and Kellog, Brown & Roots (KBR), a Halliburton subsidiary.

Table 1 shows typology of PMC based on type of companies, services and some examples of the PMC.

Table 1: Typology of PMC

Type	Type of Companies	Services	Companies
1	Military provider companies	Implementation and Command	Executive Outcome and Sandline
2	Military consulting companies	Advice and training	MPRI and Vinnel
3	Military support companies	Supplementary services	Kellog, Brown & Roots (KBR) and Ronco

Source: authors' elaboration

From international business perspective, PMC cannot be entirely classified as capital-intensive MNC as they can also be combined within traditional industry (Singer, 2001). The reason is, to some extent, PMC relatively needs small capital and intellectual capacities. All of needed equipments in these industries are available in international market. For instance, the need for employees, companies can recruit it from former military personnel from all over countries in the world as they are relatively available in supply.

Nowadays, the emergence of PMC indicates a new born entity in modern MNC studies. Dunning (1993) classifies four main lines of businesses of MNC in the modern world, namely: first, one that creates a product when home country cannot produce economically, and either as a whole or part of product. Second, MNC that focuses on research and development-intensive activities such as computer manufacturer and pharmaceutical product. Third category is MNC that focuses on mass production such as automotive. Finally the fourth is MNC that produces high capital-intensive goods. However, the growing complexities of modern economic mechanism, four main lines of businesses of MNC cannot accommodate all of activities conducted by MNC. One of them is MNC in security sector (PMC).

PMC emerges as a new form of MNC with unique characteristics. Traditionally, MNC can be classified into three major industries, oil industry, automobile industry, and electronics and computer industries (Modelski, 1972). However, PMC is different from that classification as pursuing profit maximizing activities specifically in security sector where state originally has an absolute sovereignty. It means that the role of MNC has been extended and expanded into security sector.

3. Underdeveloped Industry: Security Industry

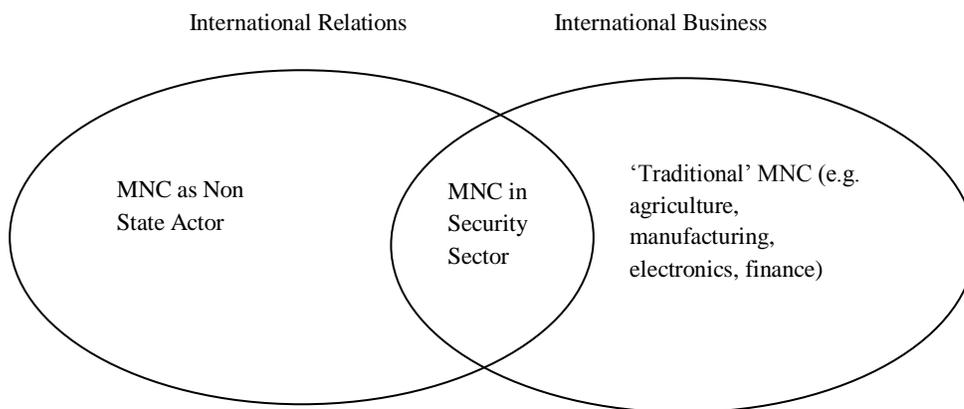
The earlier part shows the separation between international relations and international business in discussing PMC issues. From the international relations perspective, PMC phenomena tend to be seen as a non state entity while international relations studies, among others, Morgenthau argues that MNC has been playing major roles in enhancing state's capability, especially in the defense-related industries (Coulombis & Georgiades, 1975). Other scholar, Gilpin (2001) argues that MNC, basically, is a part of product of their home country. In addition, he argues that domestic structure and state's ideology are very significant in influencing strategy and activity of MNC. Furthermore, there is a synergy between MNC and state. Based on this fact, from international relations perspective especially realist underlines that PMC is one part of state's interest in enhancing its own capabilities.

On the other hand, international business perspective argues that PMC tend to focus on the broadening role of MNC into security sector where state originally has an absolute sovereignty since its independence. International business studies have been mainly analyzing MNC from agricultural, financial, automotive, machine and chemical sectors. The emergence of PMC becomes a new phenomenon because the MNC's type and behavior are different from other 'traditional' MNC. The differences as explained above are not included into Dunning's classification (Dunning, 1993).

This discussion suggests that there is space for convergence between those two perspectives, both international relations and international business in analyzing PMC. Both of them only provide analysis of PMC phenomena from their own perspective whereas it should be analyzed from both perspectives more comprehensive and multidisciplinary.

Theoretically, the emergence of PMC indicates that there is a cross section between international relations studies and international business studies in term of these field of studies concern a new role of MNC phenomena which broadening into security sector. PMC phenomena as MNC of security become convergent studies. It means PMC not only seen as non-state actor or broadening role of MNC, but also become an issue which can be analyzed from two perspective, international relations and international business perspective. Figure 1 depicts the intersection between two perspectives.

Figure 1 Intersection between International Relations and International Business



From the above discussions, we propose that

- (1) PMC is a new line of business of MNC converging between MNC as non state actor derived from international relations perspective and 'traditional' line of business of MNC derived from international business perspective; and
- (2) PMC can be seen as a new way to pursue profit maximizing of MNC by supporting or replacing military personnel in one area of conflict into other areas of conflict all over the world

4. Case Studies

This part examines three PMCs, Executive Outcomes (EO), Military Professional Resources Incorporated (MPRI) and Kellogg, Brown & Roots (KBR) in Iraq as an example for type 1, type 2 and type 3 respectively. The first two examples will be explained briefly as we focus on the third type which is more relevant to the objective of this paper.

EO: military provider company

Shearer (1998) points out characteristics of EO as follows: (1) it roots from the South African Defence Force (SADF) in the era of apartheid; (2) it mainly provides combat support; and (3) it links with mining and oil and exploration activities. In his work, Shearer argues that EO has been successfully involved in Angola and Sierra Leone in 1993-1994 and 1995-1996, respectively. They operate closely under coordination with the government and they won war for the government.

MPRI: Military consulting company

MPRI, as type 2 of PMC, offers military services in area of analysis and consultancy in order to increase military capabilities of their clients. In offering services, MPRI is one company which consists of professional military personnel. Some of their company's leaders are former high rank military officers in US Army (Shearer, 1998). Differ from other types of PMC, MPRI is a company which provides military assistance in forefront of a battle ground. It provides military personnel and their equipments to increase military capabilities of their clients instantly such as force design and management, simulation and war-gaming, quick-reaction support and democracy-transition-assistance programs (Shearer, 1998).

Their involvement in former Yugoslavia can be an example of MPRI's activity. Even some speculations accuse them in the *Operation Storm* in 1995, but they deny any direct link with the operation. They only imply their limited involvement into classroom instruction on civil-military relations and do not include tactical and weapons training (Shearer, 1998).

Both EO and MPRI have shown different characteristics of their involvement in the areas of conflict as PMCs. As we do not intend to access the effectiveness of each characteristic of the company, instead showing the emergence of new type of PMC as new line of business of MNC. Here we argue that the operation of KBR in Iraq provides new opportunity worth to be considered as potential and future business of MNC.

KBR in Iraq: Military supporting company

KBR as type 3 of PMC dominated by non-combatants' personnel. KBR is a business unit which provides private security services in area of logistical needs in warfare. KBR is one of Halliburton Company's divisions, in addition to Halliburton Energy Services Group (HESG), which focusing on construction sector. KBR established in 2002 as a business entity under Halliburton Company. The name of KBR was come from business entity which had existed before under the same company, Halliburton, so-called Kellogg Company and Brown & Root Company. Although Kellogg and Brown & Root were two companies which supported the establishment of KBR, there were several companies which also supported KBR. They were Welex Jet Services and Research Center and Freight master (Halliburton, 2003).

In the United States business construction history, Kellogg Company has a great credibility. Kellogg Company was established by Morris W. Kellogg and its office was in New York. Since the establishment in 1901, Kellogg Company has its specification in pipe construction sector. In 1927, Kellogg established a research and development center whose inventions becoming an excellent technology for KBR, until now. In 1988, Kellogg Company was acquired by Dresser Industries, a big company in energy sector. The acquiring of Kellogg Company by Dresser Industries makes them as one of the biggest company in United States.

Brown & Roots, which established in 1919, has bigger contract records even though this company was established later on than Kellogg Company. Brown & Root Company was established by George Brown, Herman Brown and Dan Root. In the beginning, Brown & Root Company was in road construction services, in a big scale or less, in civil or government areas. In the next level, Brown & Root not only in road construction, but also in another projects such as bridges construction.

Brown & Roots got a contract to rebuild four bridges in Texas, after the establishment of the company. In addition, this company also got a contract to build Mansfield dam and air station in Corpus Christy during World War II. The contract to build air station in Corpus Christy was from US Government and Brown & Root got US\$90 million from this contract.

At the same time, World War II, Brown & Root also got a contract to build many large ships for US Navy even though they have no experience in building a ship yet. After the Cold War, business area of Brown & Root was increased. Since then, Brown & Root had begun in the area of security business by provided logistical needs for US military personnel in the world.

From that points, KBR as Halliburton's division and also as a company in business construction has a good foundation. Kellogg Company is a company whose specialization was in pipe construction for oil industry. In the other hand, Brown & Root Company whose specialization was in general construction and US military logistical needs.

Therefore, in the KBR operation, this company divides into two segments, the chemical and energy segment and government and government segment. These two segments, indirectly, indicating the merging processes between Kellogg and Brown & Root operations.

KBR's business segment, related to chemical and energy, is originally from technology that developed by Kellogg's research center. Many technologies from this research center, then, make KBR superior in chemical and construction industry. A technology that becomes KBR's specialty is a technology which converts crude gas into Liquefied Natural Gas (LNG). In the KBR's report 2006, KBR declares that they have designed and developed gas conversion technology in more than a half of LNG industry in around the world since 1976 until 2006 (KBR, 2006).

In the *Corporate Warriors: the Rise of the Privatized Military Industry and Its Ramification for International Security*, Singer (1998) classified KBR as PMC from type 3. PMC's type 3 is PMC that provides logistical needs, technical, and transportation for military personnel. It means that KBR indirectly take part in a battle ground. However, KBR becomes a significant actor in a battle ground to provide logistical needs for military personnel.

The classification of KBR as PMC/PSC is a consequences of government and infrastructure segment roles under KBR. By this segment, KBR get a lot of contracts from government to provide military logistical needs. In providing military logistics, KBR not only cooperate with US Government, but also with other country that need of their services.

In Iraq War 2003, the joining of KBR was a part of US military outsourcing policy in 1990s. As ministry of defense, when international political condition was signed by the decreasing of conflict escalation of Cold War, Dick Cheney took many policies in defense budget which very different than before. One of them was tightening military budget from US\$2.2 million into US\$1.6 million. At this point, Cheney took a significant policy to invite private sector in military activity.

Before the legalization of outsourcing program, first of all, US Department of Defense took a research about the role of private sector in military activity (Miller, 2006). For this research project, US Department of Defense gave this project to Brown & Root, the origin of KBR (Goldstein, 2004). The result was recommended to US Department of Defense to outsource their military functions. By that recommendation, the role of KBR in government military activity was begun.

One of the implications of tightening in military budget after the Cold War era was demobilization of US military personnel. For that program, KBR becoming the first reference for policy maker in Pentagon in demobilize their military personnel. Department of Defense wanted KBR to become a place for former military personnel. Indirectly, KBR has been transforming into a place for irregular military personnel under professional management like a Multinational Corporation (MNCs) which US government could use it any time. In the Pentagon perspective, this problem is very important and crucial because if the US Government makes a mistake in handling the former military personnel; they could become a threat for US stability (see e.g. Nodlinger, 1977).

Besides the demobilization of military personnel, outsourcing policy also gives impact on a formation of Logistics Civilian Augmentation Program (LOGCAP) (Needham, 2002). LOGCAP is a main result of KBR research under the US Department of Defense program. Through LOGCAP, military support functions has shifted into private companies. In LOGCAP contract, the private companies which get the contract have an obligation to serve military needs within 180 days. The private companies have to providing meals and accommodations for 20,000 military personnel without any preparations before and in a high risk places during 180 days. The financial profit that would they get is significant.

As a company which got the LOGCAP contract, KBR have obligations to provide logistical needs for US military personnel and alliance troops during Iraq war 2003 and during the reconstruction process. In addition to provide logistical needs, KBR also does some tasks like distributing oil and building many houses for Iraqi civilian. Table 2 describes about KBR tasks in Iraq

Table 2: KBR Tasks in Iraq 2003-2006

No.	Type of Task
1.	Camp Operations
	a. Construction and Maintenance
	b. Food Service
	c. Latrines and waste management
	d. Laundry
	e. Power Generations
	f. Water and Ice
2.	Air and Sea port infrastructure, airfield operations
3.	Equipment maintenance
4.	Fuel distribution
5.	Fire fighting
6.	Morale, welfare and recreation services
7.	Office automation and supply
8.	Transportation, supply, property accountability

Source: Goldberg (2006)

In their tasks as PMC/PSC in Iraq, KBR got a lot of compensation from US government. Through their roles, KBR got US\$ 8 billion for compensation at the beginning of their operation in Iraq (Miller, 2006). KBR's money has been growing and their company becomes richer as a result from their operations in Iraq. KBR's contract is the highest one for Security Company which operated in Iraq (Miller, 2006).

5: Conclusions

This paper has discussed the emergence of new role of MNC by proposing the existence of PMC that can be analyzed both from international relations and international business perspectives. PMC has been attracting scholars from international relations' attention. Its contribution in "replacing" or "outsourcing" one of particular country's tasks in guarding their sovereignty by deploying PMC into conflict/disputes areas has been important debate among them. For instance, the debate focuses on whether the existence of PMC will decrease the sovereignty of state.

However it has been paid little attention by those who study international business. We argue that there is new, wide and huge opportunity for international business scholars to conduct research in how to manage PMC as part of new line of business of MNC. In particular, how corporate level strategy will be formulated and finally implemented in the sensitive, yet complex areas (e.g. linkage among domestic politics, military issues and international affairs). It becomes more challenging tasks as PMC is mainly operating in conflict areas.

The convergence of two perspectives will provide broader and more comprehensive assessment toward both corporate and business level strategy as well as deal with home country who hire PMC. These tasks are important from strategic management point of view particularly in the subfield of international business and headquarters and subsidiaries related issues that should be a challenging research agenda in the near future.

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