Introduction

The purpose of this paper is to examine investments by largely western firms into areas of conflict. The previous literature that we discuss below focuses on the extent to which FDI into such locations may impact on the instability of the region, or subsequently, contribute to economic development, there is little work that seeks to examine the motivation of these firms to invest in such locations. To the best of our knowledge there is no prior work that examines the motivations of firms to invest in conflict locations, or why such locations attract a significant amount of FDI. We seek to extend the literature that focuses on particular examples, or develops conceptual or theoretical analysis of the links between government and business, by examining whether, using the lens of international business one can explain why some firms are willing to invest in such locations. As we discuss in detail below, the limited literature that exists merely focuses on the importance of natural resources. However, as we will demonstrate, the picture is somewhat more complex than this, with firm and host country level factors potentially more important. Our results, discussed in more detail below suggest that both firm and national level governance structures influence the decision by forms to invest in conflict locations, and that overall the results are similar to other empirical investigations of FDI flows based on the OLI paradigm, with profitability, cash flow and firm specific intangible assets all linked to the FDI decision.

In 2005 a newly formed company received a good deal of hostile press in both Europe and the US for announcing that it intended to explore the gas and oil reserves in Sudan. The press reacted as though this was a unique and somewhat disturbing development in the international business environment[1]. In fact, what was unusual

about the White Nile case was not that a firm from the West was willing to invest in a war torn region, but simply that a relatively small company had been set up for the specific purpose of doing so, rather than this being undertaken by one of the world's largest firms. The total stock of FDI in conflict countries was US$ 169 billion in in 2009 based on UNCTAD data. In the last 10 years more than 500 multinational firms have been involved in this. Despite this, and the importance that political scientists, development professionals and academics have attached to FDI as a vehicle of development, little is known about either the motivation this type investment. To the best of our knowledge, this paper represents the first attempt to examine these issues from the perspective of the firms motivation to invest in conflict zones, and presents the first analysis of the determinants of firms decisions to invest in such locations.

The UN security council has repeatedly stressed the importance of inward investment in both conflict and post-conflict locations. On July 22nd 2009, four years after the UN set up a Peace-building Commission, the UN Security Council outlined the issues facing a post-conflict country. "The first is the need for a strong leader to stop 'international agencies' turf wars. The second is for money to be released in good time. Humanitarian funds come out of emergency budgets; peace-building usually comes out of development budgets. The UN cannot stop war unless it is also able to win the peace."(UN 2009, pp. 12).

Yet while, the role of inward FDI in stimulating development, building capacity and generating growth has been well investigated, little is known about FDI in the context of corruption, conflict and post conflict. There is a large economics literature (see for example Javorcik and Wei, 2009) on the impact of institutional quality on FDI inflow, and the general conclusion is that weak institutions adversely affect FDI. At the same

time, there is a more limited international business literature on the impact of institutions on MNE strategies, see for example Meyer et al (2009). These literatures however seldom inform each other, the former content to note that FDI is deterred by weak institutions (with the underlying inference that the Washington Consensus should be adopted to alleviate this problem), and the latter content to focus on the actions of firms after the investment decision is taken.

Despite the importance of this interaction between international business, risk and political capital, and the importance of home country institutions, surprisingly little is also known about the motivations for firms to invest in such volatile locations. The purpose of this paper therefore is to seek to address these gaps and thus extend existing theory of international business to the analysis of firms who seek to invest in conflict countries.

We build on the analysis of Rodriguez et al (2006), by examining the motivations of firms to invest in highly volatile climates. While this approach offers some additional theoretical and conceptual insight, and offers some linkages across the lenses of politics, corruption and CSR, it does not extend to more extreme cases, such as high levels of grand corruption (Rose-Ackerman, 2002) or conflict. This paper proceeds as follows: in section 2 we discuss the very limited literature available for this area of research. In section 3 we outline our 3 key hypotheses and their theoretical basis. In section 4 we describe our empirical specification. In section 5 we discuss the empirical results. Finally, section 6 concludes our analysis.