1 Introduction: the United Nations Global Compact – retrospect and prospect

ANDREAS RASCHE AND GEORG KELL

About This Book

Much like the Global Compact, this book is based on the idea of collaboration between different stakeholders. We invited practitioners from a variety of areas and academics to share their views about the first ten years of the Global Compact, and to also reflect on what remains to come. From the outset it was understood that the different contributors would explain and reflect on the Global Compact in their own way. Instead of seeing this as a problem, we believe that a variety of perspectives can help to expose areas of agreement and disagreement. Over the years, the Global Compact has significantly profited from the ideas introduced by different parties and the tensions these ideas created. The unique blend of people involved in this book project serves to further develop the Global Compact by sustaining the existing discourse among practitioners and academics. Combining practical insights and lived experiences with recent academic reflections was one of the key motivations for this edited volume.

Bearing in mind that the Global Compact celebrates its tenth anniversary in 2010, we asked all contributors to take the theme of 'Achievements, Trends and Challenges' as a 'walking stick' to create their chapter contribution. While in some chapters a reflection on past achievements, current trends and future challenges is implicitly embedded in the discussion, other chapters address these three issue areas in a more explicit way. Looking back at the first ten years of the Global Compact, a reflection on what has been achieved and what issues are likely to influence the initiative during the next decade not only is necessary but most of all *timely*. Without doubt, the different chapters echo the complexity of the Global Compact as a Network-based, multi-stakeholder initiative working globally and locally. We believe that the rich reflections, which are presented in the chapters, give the reader a good grasp of what the initiative is about, where it came from, and where it is potentially heading.

The book should neither be understood as a comprehensive summary of the first ten years of the Global Compact nor as an officially endorsed document. Our aim was to bring together academics and practitioners (and people who 'live' in both worlds) to reflect on their experiences researching, implementing as well as working for or with the Global Compact. While research on the Global Compact has expanded noticeably in recent years (see, for instance, Cetindamar and Husoy 2007, Rasche 2009a, Rieth *et al.* 2007, Runhaar and Lafferty 2009),[1] there is still much to learn from practitioners' on-the-ground experiences. For future research to be relevant, it needs to give consideration to the institutional embeddedness of the Global Compact and the constraints as well as opportunities this creates. Of course, the contributions in this book also show that practice can be inspired by the ideas developed through academic discourse. For instance, Dirk Ulrich Gilbert (chapter 19) emphasizes a variety of mechanisms to increase trust among participants in Local Networks. Whatever the relation between academic discourse and practice might be, this book aims to speak to 'both worlds'.

Achievements: the United Nations Global Compact in historical context

The underlying conviction of the Global Compact is very well characterized by UN Secretary-General Ban Ki-moon, who describes the relation between markets and societies as follows: 'Markets can flourish only in societies that are healthy. And societies need healthy markets to flourish' (United Nations 2008: 1). The Global Compact acknowledges that business, as a key agent driving globalization, can help to ensure that markets advance in ways that benefit society.

What is today the largest corporate responsibility initiative in the world, with currently more than 7,300 business and non-business

[1] We make no attempt to survey the rich academic and non-academic literature on the Global Compact. For a recent detailed overview and discussion, see Rasche (2009a).

participants in over 130 countries (as of January 2010), started out as a speech. When then-UN Secretary-General Kofi Annan went to the World Economic Forum in Davos in January 1999, he challenged the business leaders of the world to help fill the governance voids that the rise of the global economy had brought about, and thus become part of the solution. Based on the conviction that the goals of the United Nations and those of business can be mutually supportive, Annan declared: 'I propose that you, the business leaders gathered here in Davos, and we, the United Nations, initiate a Global Compact of shared values and principles, which will give a human face to the global market' (United Nations 1999: 1).[2]

The reaction to this speech was overwhelming. Annan received letters from CEOs and different ambassadors to translate these fine words into action. After non-governmental organizations (NGOs), labour and a variety of UN agencies had committed to the idea of setting up a Global Compact, where business makes a principled commitment to universal values, the initiative was operationally launched on 26 July 2000, at UN Headquarters in New York. The Global Compact went operational with only a handful of companies and non-business stakeholders but quickly attracted more participants and thus unfolded its own dynamic. The New York meeting brought together executives from around forty businesses and representatives from NGOs, labour, and partnering UN agencies.

Everyone who knows the history of the UN–business relationship is aware of the ideologies that had to be overcome to make the Compact a success story (for this, see also Sagafi-Nejad 2008). The Global Compact is the living example for a new era of cooperation between the business community and the United Nations; an era characterized by overcoming a recent past of mutual suspicion (Kell 2005). This rapprochement was reinforced by the rapid transformation of economic and social structures throughout the world, mostly driven by globalization and its discontents. The Global Compact was the creative answer to the many unaddressed governance gaps which deteriorated as a result of the worldwide expansion of value and supply chains.

[2] The full version of the speech, as well as a variety of other historical documents, can be accessed via the Global Compact website (www.unglobalcompact.org/NewsAndEvents/Speeches.html).

By launching the Global Compact, the United Nations successfully entered the corporate responsibility territory. Of course, providing a dictionary-like definition of what the Global Compact reflects is dangerous insofar as definitions are always static, while the initiative and its environment are dynamic. In its most general sense, the Global Compact is a call to companies to voluntarily align their operations with ten universal principles in the areas of human rights, labour standards, the environment and anti-corruption (the ten Principles are fully listed at the beginning of this volume, p. xxxi). By participating in the Global Compact businesses are expected to contribute to the fulfilment of the initiative's two major objectives: (1) to mainstream the ten Principles in business activities around the world and (2) to catalyse actions in support of broader UN goals (including the Millennium Development Goals or MDGs). It is obvious, but still needs to be emphasized again and again, that the Global Compact is neither a standard to measure corporations' compliance against predefined indicators nor a seal of approval for participating businesses. Without doubt, compliance-based instruments (e.g. certification standards for social audits) have their rightful place on the corporate responsibility agenda. Certification standards and principle-based initiatives, like the Global Compact, should be perceived as being complementary and not mutually exclusive. After all, the Compact is also no substitute for what governments seek to achieve through regulation.

Throughout its first ten years the Global Compact has proven to be a flexible and dynamic initiative, mastering growth with limited resources in a non-bureaucratic way – the addition of the 10th Principle on anti-corruption (2004), the launch of the Communication on Progress policy (COP, 2005), the first (2004) and second (2007) Leaders Summit, and the set up of issue platforms like Caring for Climate (2007) – are all landmark events in the history of the initiative and echo its vibrant and thought-leading character (see also the relevant chapters on these topics in this book). These and other events helped to achieve a lot: through its substantial outreach the Global Compact has helped to shape and widen the corporate responsibility movement – away from its limited emphasis on isolated philanthropic activities towards an understanding that responsible corporate action requires a redesign of value chain activities and corporate policies as well as strong leadership. Underlining the strategic significance of responsible business practices, the Global Compact has also helped to establish the business case for corporate responsibility, for instance by supporting the Principles for Responsible Investment (PRI). Nowadays, it is well understood that environmental, social and governance (ESG) issues are all drivers of corporate performance (see also chapter 11 by James Gifford).

Considering the plethora of corporate responsibility initiatives and their rapid proliferation over the last years (for overviews, see Leipziger 2003 and also Rasche 2009b), it is worth to take a closer look at some of the *distinguishing features* of the Global Compact:

1. The Global Compact, unlike other multi-stakeholder schemes aiming at certification (SA 8000) or reporting (GRI), is a principle-based initiative asking participants to align their operations and value chain activities with ten universally accepted principles. Commitment to the Global Compact has to be endorsed by the chief executive officer (CEO). This CEO-led character makes the initiative a leadership platform, which is based on a robust policy framework for the development and integration of corporate responsibility practices into a firm's value and supply chain.
2. The Global Compact, unlike other initiatives, is truly global. Half of all participants are based in developing or emerging economies (Global Compact 2008: 8). The worldwide reach of the Compact helps to fill governance voids through coordinated action across countries, regions, and continents. The Compact has a particularly strong foothold in essential economies like China and India, both of which play a significant role when looking at the challenges inherent in the ten Principles. By now, China and India are among the largest Local Networks and provide a significant share of the overall signatory base.
3. The Global Compact involves small and medium-sized enterprises (SMEs) *and* larger companies. Business participation is almost equally split between these two types of corporations. Considering that SMEs, which are often part of global supply chains, play a pivotal role when thinking about how to implement corporate responsibility practices in the local context, their participation in the Global Compact is inevitable.
4. The Global Compact enjoys wide government support. The General Assembly as well as the G8 have recognized the initiative. In addition, the mandate of the Global Compact Office has been renewed

and expanded through the General Assembly Resolution 'Towards Global Partnerships' (A/RES/64/223) of December 2009.

The combination of these characteristics makes the Global Compact unique when compared to other corporate responsibility initiatives.

Trends: shaping the corporate responsibility agenda

Corporate responsibility is a dynamic field. Many trends have shaped the agenda over recent years. Throughout its rather short history, the Global Compact (together with other initiatives) has witnessed a fundamental change in how, where and which businesses handle corporate responsibility issues. Considering these trends, it is necessary to look at what currently shapes the agenda:

First, *corporate responsibility has turned global*. As mentioned above, especially emerging economies like China and India have entered the corporate responsibility universe and started to build up localized knowledge and best practices. This development highlights the possibility for increased collaboration, not only among multiple stakeholders but most of all across continents and regions. The interconnected and interdependent nature of economies around the world (for example, as shown by the recent economic downturn) reflects a governance challenge. The Global Compact started from the premise that the existence of global governance gaps drives the need for corporate responsibility. This is nowhere more evident than in the early writings on the initiative (Kell and Levin 2003, Kell and Ruggie 1999, Ruggie 2001) and has also been acknowledged in the wider discourse on corporate responsibility (Scherer and Palazzo 2008, Scherer, Palazzo and Baumann 2006). Nowadays, this positioning of the Compact seems very timely and has surely contributed to its success.

Second, *corporate responsibility has turned into a strategic and operational concern*. Corporations join the Global Compact for reasons of risk mitigation and opportunity seizing. The 2008 Global Compact Implementation Survey finds that corporations are aiming at integrating ESG issues into their corporate strategies and value chain activities (Global Compact 2008: 10). Increasingly, corporate responsibility is proactively embedded in organizational processes and relates to concrete business practices; it is a strategic concern affected by and affecting the long-term positioning of an organization. The strategic concern for corporate responsibility is also reflected by the CEO-led nature of policies. While this shows that corporate responsibility has 'matured' insofar as it is perceived as being an 'internal' part of business activities (and not an 'external' add-on), top-level management commitment itself is not enough. Strategies and practices have to be communicated and 'lived' throughout the organization. This attitude is well reflected in the remarks by Bo Miller (Global Director, Corporate Citizenship, The Dow Chemical Company) who was interviewed for Carolyn Woo's chapter 7 on 'Implementing the United Nations Global Compact'. Miller states: 'Our view of the Compact is significantly more than a declaration or document – it is a living, active process for continuous, practical improvement.'

Third, the *link between financial markets and corporate responsibility* is growing stronger. The Global Compact, through its partnership with the PRI, has significantly supported this process. A swiftly growing community of asset owners and asset managers commits to considering ESG issues in their investment decisions. As discussed in chapter 11 by James Gifford, the link between financial markets and corporate responsibility is central as initiatives like the PRI encourage businesses to either join the Global Compact or improve their performance and level of implementation with regard to corporate responsibility issues. The recent global financial crisis has reinforced the need for long-term, sustainable investment strategies over short-term considerations. While improved governance of financial markets cannot solely rest on voluntary initiatives like the PRI, but needs to be backed up by legislation, there is no doubt that a further recognition of ESG issues by the investment community acts a strong driver of the corporate responsibility agenda.

Last but not least, the *environmental and corporate responsibility agendas are conflating*, largely due to business' pivotal role in shaping a future low-carbon economy. The Global Compact realized this development early on by creating the Caring for Climate and CEO Water Mandate specialized engagement platforms (see also the chapter by Claude Fussler). While a few years ago social issues largely dominated the corporate responsibility field, environmental issues are increasingly recognized as being an integral part of corporate responsibility. Companies that choose not to accept the challenge of integrating sustainability-related issues into their strategies and operations do so at their peril.

Staying ahead of the curve implies the need to recognize that environmental challenges – like lowering carbon dioxide (CO_2) emissions, fresh-water availability and water pollution – cannot any longer be managed in a disconnected manner. There is an urgent need not only to put these issues on the corporate responsibility agenda but to also understand existing and emerging linkages: (a) among these environmental problems, (b) between these problems and the wider corporate responsibility agenda (e.g. social issues and anti-corruption) and (c) between these problems and a company's business policy and value chain activities. For instance, it is widely accepted that there are strong connections between the climate, energy and water agendas (e.g. climate change affects water scarcity and sustainable supply because of the decreased natural water storage capacity from glacier/snowcap melting; see Pacific Institute and United Nations Global Compact 2009).

Challenges: the need for further action

The Global Compact is a dynamic initiative, promoting learning, but also able and willing to learn itself. While almost all chapters reflect on the future of the Global Compact in one way or another, we would like to highlight four challenges in particular.

Improving implementation of the ten Principles

The 2008 Global Compact Implementation Survey revealed different implementation gaps (Global Compact 2008). In a world of globally interconnected value and supply chains, the Compact's Principles have to move beyond corporate headquarters. The contribution of subsidiaries and supply partners has to be deepened when thinking about how to put the ten Principles into practice. This, however, will require advancing businesses corporate responsibility policies and further developing existing management practices. The Global Compact – as an initiative representing a range of companies from a variety of sectors, sizes and regions – attracts companies with different expertise regarding corporate responsibility issues. The 2008 Implementation Survey identified only 8 per cent of all participants as 'advanced' performers (Global Compact 2008: 12), with the majority of participating businesses ranking as 'intermediate' performers.

The key challenge will be helping 'beginners' to scale up their corporate responsibility performance, while maintaining the strong position of the 'advanced' companies. This challenge needs to be addressed from two sides: the Global Compact itself can recommend and develop tools and guidance, help to share good practices and promote multi-stakeholder dialogues and learning. Companies, through top-level management commitment and allocation of ample resources, have to integrate the ten Principles into their core operations and supply chain management (for a comprehensive discussion of implementation, see chapter 7 by Carolyn Woo and also Fussler, Cramer and van der Vegt 2004).

Advancing Communication on Progress (COP)

As discussed throughout this book, disclosure on implementation progress is one important way for corporations to demonstrate commitment to the Global Compact. The Global Compact requires annual reporting on progress and delists all participants which fail to communicate their ongoing implementation efforts. While more than 7,000 COP Reports are already available on the Global Compact website for public review (as of January 2010), it is also clear that the overall quality of reporting has to improve. Only a minority of companies is using established disclosure frameworks, like the GRI G3 Reporting guidelines. The challenge is to not only report on corporate policies and unconnected projects, but to show clear evidence of impacts 'on the ground' based on measurable and transparent indicators. So far, the Global Compact has been forced to delist over 1,000 companies (as of January 2010) for failure to submit a COP Report.

Of course, we need to bear in mind that, while most multinational and large national companies have experience in non-financial reporting, disclosing information on the implementation of the ten Principles is 'new territory' for many SMEs. The Global Compact is working hard to provide practical guidance to those seeking further information and help (see, for instance, the 2008 edition of the 'Practical Guide to UN Global Compact Communication on Progress'). The bottom line is that without a more rigorous approach towards annual disclosure, it will be hard for stakeholders (especially investors) to judge whether and how a company performs with regard to the ten Principles. Establishing the link between ESG performance and long-term value requires more comprehensive disclosure.

Further developing specialized engagement platforms

The Global Compact, together with other organizations, has developed engagement platforms to give participants a chance to demonstrate leadership regarding climate change (Caring for Climate platform) and water sustainability (CEO Water Mandate). Both platforms already enjoy a number of supporters from developed, emerging and developing economies – 370 firms have signed on to Caring for Climate, while 57 companies have signed the CEO Water Mandate (as of January 2010). Participating companies are engaged in individual and collective action and annually report on progress. While both initiatives have gained momentum, it is also clear that supporters of these platforms represent only a small fraction of the overall signatory base of the Global Compact. Considering the urgent need for large-scale action to address climate change and water sustainability, it is necessary to broaden these specialized engagement platforms. Change comes from well-coordinated individual and collective action; expanding the signatory base of such engagement platforms is inevitable if this change is to occur.

Coping with changing global economic realities

While it is still unclear what precise long-term effects the multiple global crises will have had on corporate responsibility practices, there is no doubt that – as businesses around the world adjust to changing economic realities – new challenges are being created. Many of the issues covered by the ten Principles and also the MDGs are likely to be negatively impacted by the crises. For instance, the conditions which perpetuate poverty (e.g. missing out on basic education) are further compounded by the global economic slowdown. The challenge is to not let short-term thinking drive out long-term practices. Addressing this challenge is even harder in an environment where many people have lost trust in corporate activities. According to the 2009 *Edelman Trust Barometer*, 62 per cent of people around the world say they trust corporations less than they did a year ago (Edelman 2009).

The Global Compact is well positioned to cope with the changing global economic realities. More than 1,400 businesses joined the initiative in 2008, reinforcing the notion that in times of crises there is, despite all the problems, also an increased search for sustainable