



## **The United Nations Global Compact: Advancing Corporate Citizenship**

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The United Nations Global Compact brings companies together with UN agencies, labour, civil society and governments to advance universal environmental and social principles in order to foster a more sustainable and inclusive world economy.

From its origin as an idea proposed by Secretary-General Kofi Annan at the 1999 World Economic Forum in Davos, the Global Compact has become the world's largest and most widely embraced corporate citizenship initiative. Today, over 2,000 companies from more than 80 countries, as well as many international labour and civil society organizations, are engaged in the Global Compact, working to advance ten universal principles in the areas of human rights, labour standards, the environment and anti-corruption. The Global Compact has unmatched strength in the developing world, home to more than half its participating organizations and a majority of the more than 40 country-level networks it has engendered.

In addition to its rapid growth, the Global Compact has achieved significant impact by fostering company engagement on pressing global corporate citizenship issues. The Global Compact's comparative advantage rests in the universality of its ten principles, the international legitimacy and convening power of the United Nations, and the Compact's potential to be a truly global platform with appeal not only in industrialized countries, but also in the developing world.

Many Global Compact participants have changed their practices, codes of conduct and engaged in new ways with stakeholders as they have sought to implement the principles. According to an impact assessment conducted by McKinsey & Company in mid-2004, half of all participating companies report having changed their policies in relation to the Compact's principles. This is a highly encouraging number considering that many companies joined the initiative in the 2003-2004 timeframe and implementation of the principles is, by its nature, a long-range internal management process. For nearly two-thirds of the companies from developing countries, the Global Compact is the first corporate citizenship initiative in which they have engaged, and many do so to learn how to improve their social and environmental performance and thus enhance their ability to enter into supplier relationships with larger global firms.

The Global Compact has adopted a “leadership model” of engagement, where senior executives are expected to drive corporate engagement, initiated by a CEO letter pledging commitment to the Compact’s principles, and supported – whenever possible – by the board of directors. This second expectation is designed to root the Global Compact in the governance structure of the enterprise. Global Compact companies are expected to:

1. Embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, environmental sustainability and anti-corruption; and
2. Engage with other partners in projects that give concrete expression to the Global Compact principles, in addition to advancing the broader development goals of the UN.

As it has grown, the Compact has developed a value proposition for participating companies based on multi-stakeholder dialogue, learning and implementation of multi-sector partnerships. Through activities in these areas, the Global Compact Office has sought to promote the principles and support company efforts to internalize them.

One of the most significant elements in the evolution in the Compact’s model during its first five years has been the organic development of country (and regional) networks. These self-generated networks have grown in a variety of ways, but in all cases have been driven by local companies’ need to translate the Compact’s global principles into local action. In many cases they have actively helped build local participants and some have facilitated learning activities, dialogues and partnership activities with other stakeholders. For example, in 2004-2005, the Global Compact Egypt network held a series of seminars on implementation, while the Global Compact Society India convened a two-day “Global Compact Regional Conclave in South Asia” in Jamshedpur, India, which drew more than 200 participants and focused on the issue of business and poverty.

Country networks have increasingly become the driving force behind the Compact as its participation grows dramatically across the globe. Indeed, it is the only viable way of managing this growth.

The Global Compact is also a historic development in terms of transforming the relationship between the United Nations and the private sector. During and well after the Cold War environment, the United Nations and the international business community often had a strained relationship. Interventionist and ill-fated attempts by the UN to regulate business practices, commodity prices and technology transfers alienated much of the international business community.

The Global Compact, through its voluntary nature and promotion of values-based markets via “responsible global corporate citizenship”, has helped redefine the broader relationship between the UN and business. This has been successful in large measure due to a powerful convergence of UN priorities and principles with business interests and objectives. Because of globalization and expanding supply chains, many companies –

especially multinational concerns – are confronting a range of social and environmental issues. And they see that the ways in which they address these problems relate to corporate risk management, as well as to the development of stable and growing markets. More broadly, the very model upon which well-functioning markets is based can only succeed if substantial progress is made in alleviating poverty in its many forms.

### **The Ten Principles**

The Global Compact seeks to foster a more beneficial relationship between business and societies, paying particular attention to the world's poorest people. The initiative seeks to contribute to more sustainable and inclusive global markets by embedding them in shared values. Importantly, the Global Compact's ten principles in the areas of human rights, labour standards, the environment and anti-corruption *enjoy universal consensus*. They are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, the following principles:

#### *Human Rights*

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

#### *Labour*

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

#### *Environment*

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies

#### *Anti-Corruption*

- Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

### **Key Stakeholders**

The Global Compact involves all relevant actors: governments, which define the principles on which the initiative is based; companies, whose actions it seeks to influence; labour, in whose hands the concrete process of global production takes place; civil society organizations (CSOs), representing stakeholder communities; and the United Nations. Other key actors engaged in the Global Compact include: cities, development agencies, academics, business associations and CSR organizations.

It is important to outline two assumptions about the motives of the Compact participants. First, actors believe that it is in their own enlightened self-interest to work towards alleviation of many of the world's most pressing dilemmas. Second, actors have recognized that many of these problems can be addressed only through multi-stakeholder cooperation.

### ***Governments***

Governments provide the essential legitimacy and universality to the principles of the Compact. Ultimately, implementation of the principles takes place within the legislative and regulatory frameworks developed by governments. They facilitate the functioning of the Global Compact at both global and national levels. As legislatures, they create an enabling, legal environment in which voluntary initiatives, such as the Global Compact, play a complementary role.

At the global level, they provide the political space for the Secretary-General to experiment with innovative engagement mechanisms involving business, labour and civil society organizations. They also provide financial support to the Global Compact Office and offer overall policy guidance on advancing responsible corporate citizenship in alignment with UN goals.

At the national level, governments support Compact events and the formation of Global Compact country networks. They also help build policies that advance convergence around the Compact and its principles.

### ***Business***

The Global Compact is a voluntary initiative promoting responsible global corporate citizenship. It operates on a leadership model in that it aims to bring a critical mass of business leaders on board to build a sustainable movement. A company's CEO, endorsed by the company's board, must take the initiative to write to the Secretary-General stating the organization's commitment to the Global Compact and its principles. Once this commitment is made, a company:

- Sets in motion changes to business operations so that the Global Compact and its principles become part of strategy, culture and day-to-day operations;

- Is expected to publicly advocate the Global Compact and its principles via communications vehicles such as press releases, speeches, etc.; and
- Is expected to publish in its annual financial report or similar document (e.g. sustainability report), a description of the ways in which it is supporting the Global Compact and all ten principles – the so-called Communication on Progress.

The Global Compact Office neither regulates nor monitors a company’s activities. The Compact’s website carries the names of the companies that have sent letters of support and provides links to relevant reports, including the Communications on Progress. Global Compact network partners facilitate implementation of the ten principles by submitting case studies and case examples, as well as by offering training and tools. They play an important role in encouraging the development of the Communications on Progress (described further in “The Opportunities and Challenges of Scale” section below).

Participating companies also have the opportunity to contribute to a number of Global Compact activities at the global and local levels, through dialogue, learning activities and partnership projects.

The Global Compact’s participant base is composed of large multinational and domestic companies, in addition to small- and medium-sized enterprises (SMEs) which represent approximately 35 percent of the total. The relative large number of SMEs is important given that in many developing countries, SMEs represent the majority of employment and effectively constitute the private sector.

### ***Labour***

Labour is part of both industry and civil society. It plays a role that is distinct from both business and other elements of civil society, which is why it is recognized as a separate group by the Global Compact.

Internationally recognized labour standards, including the fundamental rights that are part of the Compact’s ten principles, are developed in a tripartite process in which business and labour play critical and central roles. They are also heavily involved in the supervisory procedures of the International Labour Organization to try to ensure that labour standards are implemented at the national level.

The organizational structures of the international trade union movement equip it to coherently participate in the Global Compact in a way that covers engagement on both sectoral and general policy issues. Trade unions are representative organizations that have long traditions of internal democracy, transparency and accountability to members.

### ***Civil Society Organizations***

Civil Society Organizations (CSOs) add critical dimensions to the Compact’s operations. They offer not just their competencies and substantive knowledge, but their problem-solving capacity and practical reach. Also, they can help to provide checks and balances and lend credibility and social legitimacy to the initiative. These characteristics help entrench the Global Compact’s principles in a broader social context.

When participating in dialogue, CSOs add value in the areas of relationship building, information sharing, problem solving and consensus building. As project partners, their practical reach and skills are often crucial to the design and implementation of initiatives that give practical meaning to the Compact's principles. These initiatives also help to maximize learning efforts associated with a company's Compact-related activities.

### ***United Nations Agencies***

The Global Compact is a network. At its core are the Global Compact Office and six UN agencies: Office of the High Commissioner for Human Rights (OHCHR); United Nations Environment Programme (UNEP); International Labour Organization (ILO); United Nations Office on Drugs and Crime (UNODC); United Nations Development Programme (UNDP); and United Nations Industrial Development Organization (UNIDO). The first four act as the "guardians" of the principles, with UNDP serving as an implementing arm and UNIDO providing expertise and resources with respect to the SMEs. The UN agencies participating in the Global Compact have collectively developed terms of reference for an Inter-Agency Team that meets a few times annually to help ensure a high degree of coherence of the activities of the Global Compact Office and the UN agencies, as well as to explore opportunities to pool the expertise and resources of the team's members.

### ***Key Initiatives and Priorities***

Issue leadership is central to establishing the business case for the ten principles. The focus on and action around important issues is the key to motivating participants and scaling up small successes through joint partnerships. To date, policy dialogues have helped create trust among stakeholders by establishing a neutral platform and creating value-added outcomes. Global Compact dialogues have also significantly contributed to achieving a climate of cooperation between business and civil society organizations.

### ***Business and Human Rights***

Human rights are a key priority for the Global Compact Office as there exists a fundamental lack of understanding on the part of many actors concerning the operational meaning of the human rights principles. In part, this is because human rights have traditionally been the concern of states, and international human rights law has generally been addressed to them only.

As more companies come to realize their (legal, moral, commercial) need to address human rights issues within their own operations and activities, they are also confronted with a number of challenges. For example, there is the need to come to grips with the human rights framework and how the company's own activities might relate to it. There is also uncertainty around how to avoid being complicit in human rights abuse and what are the boundaries of companies' human rights responsibility. Therefore, there is a keen demand for tools and guidance to help companies with their internal implementation

efforts. The Global Compact Office hopes to offer more clarity to this debate by emphasizing practical solutions and the business case for human rights

### ***Role of the Private Sector in Zones of Conflict***

Peace and development are the twin missions of the United Nations. They are, indeed, highly interconnected. It is virtually impossible to achieve meaningful and sustained development without peace. Equally, poverty is often a root cause of conflict and violence in societies.

The role of business in conflict zones has been explored only recently – and is not yet a mainstream corporate responsibility issue. Much work is needed to understand the many complexities and challenges on the ground. However, a consensus is emerging that business has a critical stake in promoting peace in partnership with governments and other stakeholders. Setting aside the moral imperative, this is fundamentally about risk management and building market opportunities. Peace is a prerequisite in creating stable, growing and inclusive markets.

The Global Compact Policy Dialogue on “The Role of the Private Sector in Zones of Conflict” has demonstrated that leading companies are embracing the notion that good corporate citizenship extends beyond the company gate. However, it is clear that business-led initiatives need the support of complementary public policies. Commissioned by the Global Compact Office, a new report “Enabling Economies of Peace: Public Policy for Conflict-Sensitive Business” was published in April 2005. This report identifies a series of public policy options by which governments and international organizations can better assist the private sector to promote effective conflict sensitive business practices and sustainable peace. Additionally, it assesses the achievements and limitations of emerging private sector initiatives, identifies continuing gaps, and surveys the range of opportunities for complementary public policy assistance to companies.

In addition, International Alert published a resource, “Conflict Sensitive Business Practice: Guidance for Extractive Industries”, which takes forward the concepts previously developed in the Global Compact’s “Business Guide to Conflict Impact Assessment and Risk Management”.

### ***Financial Sector***

The financial sector is increasingly recognized as a primary actor within the CSR community. The Global Compact Office efforts in this area revolve around the objectives of (1) deepening and broadening implementation of environmental, social and governance factors in mainstream investment decision-making and (2) securing the commitment of major stock exchanges to support corporate citizenship and the GC.

During 2004 the Global Compact Office launched a major financial-sector initiative involving a commitment by mainstream investment companies to integrate so-called ESG factors (environmental, social and governance) into their investment analysis and decision-making. The “Who Cares Wins” initiative presents a wide-ranging series of recommendations for a host of financial-industry stakeholders, including brokers, asset

management firms, pension funds and stock exchanges. The initiative is supported by the chief executive officers of 20 global companies controlling \$6 trillion in assets. In addition, the IFC and The World Bank Group have officially endorsed the recommendations. The Global Compact Office worked with several partners to develop the initiative, including the Swiss Government, The Conference Board, Columbia University and UNEP FI. Implementation of the recommendations is currently under way.

A second initiative centers on the world's stock exchanges, seeking to encourage them to influence their listed companies to support the GC, and to consider other ways of partnering with the GC. It is expected that both the stock exchange and financial analyst communities will become significant advocates and drivers in supporting the GC.

Finally, the Global Compact and the United Nations Environment Programme launched the Principles for Responsible Investment initiative, which is currently mobilizing the chief executive officers of the world's largest pension funds to advance responsible investment globally.

### ***Emergency Relief***

The Global Compact Office played a major role in the development of "Business Contributions to UN Emergency Relief: An Orientation Guide", which was launched in cooperation with the Office for the Coordination of Humanitarian Affairs (OCHA) at a landmark conference in April 2005. The Guide was designed to assist businesses in identifying effective ways to support the UN's emergency relief efforts. As the response to the December 2004 Southeast Asian Tsunami relief effort demonstrated, work is needed to improve the methods for channeling the enormous generosity of the private sector amid global crises.

### ***Business and Development***

The Global Compact and its vision relate directly to the international development agenda. Indeed, the Compact's two complementary objectives – i) making the ten principles part of business strategy and operations and ii) promoting partnerships – form an effective tool for business to contribute to sustainable development.

By developing and implementing policies in the four areas of the Global Compact – human rights, labour, the environment and anti-corruption – companies are, by definition, contributing to the process of sustainable development.

In addition, by forging partnerships with other stakeholders, businesses have the opportunity to scale up action within and even beyond their direct spheres of influence. The full integration of the ten principles, particularly in low-income countries, accompanied by well-selected partnership projects, can make companies a driving force for development. Already, business has shown how to contribute in areas such as HIV/AIDS in the workplace, small- and medium-sized business development, the provision of training, environmental protection and a host of community projects.

A noteworthy example of action is the Global Compact's Growing Sustainable Business initiative, implemented by UNDP, which has mobilized companies to invest in less developed countries in order to build key economic, social and environmental pillars.

### **The Opportunities and Challenges of Scale**

The Global Compact Leaders Summit in June 2004 provided the initiative with an opportunity to re-engage leaders from all sectors – business, labor, civil society, and government – and set the strategic course and priorities for the coming years. It was the largest-ever gathering of business leaders at the UN. A conference in London later that year brought together the focal points of many country networks, who agreed to better define their governance systems. The adoption of the tenth principle on anti-corruption – announced at the Summit by the Secretary-General – was followed up with a roll-out of tools for implementation. And work with financial markets, both mainstream investment companies (through the globally recognized *Who Cares Wins* initiative) and stock exchanges, represented another major milestone.

While these are important and promising developments, it is clear that the Global Compact must focus more on *action* and *impact*. While the Global Compact today stands as an impressive network of nearly 2,000 companies and other stakeholder organizations, putting the principles into practice remains the overriding challenge. A bold step was taken in 2004-2005 with the introduction of an explicit policy on how companies should describe their implementation of the principles – the Communication on Progress (COP).

The COP policy requires corporate participants to submit, annually, a prominent communication outlining their implementation of the ten principles – or risk being identified as inactive on the Global Compact website. The overall objective is to raise the transparency and public accountability of the initiative. The Global Compact Office communicated directly with all participating chief executives concerning this requirement, while also engaging the many country networks to mobilize local participants in this regard. To further assist in this effort, a Practical Guide to Communication on Progress was published in May 2005.

An overriding challenge moving forward will be to encourage more and more companies to develop this important communication, understanding hurdles that include language issues, as well as fundamental differences in business culture and attitudes with respect to implementation versus communication. Indeed, it is clear that many Global Compact participants have impressive tracks records in terms of turning the ten principles into practice, but companies – especially in the developing world where notions of “transparency” and “public reporting” are not as common as in the developed world – must be encouraged to communicate their efforts to help raise the overall credibility of the initiative.

The governance of the Global Compact – at both the global and local levels – is also of prime importance. During 2005, consultations on the overall governance – that is, at the global level – of the initiative began with participants and stakeholders. The outcome of

these deliberations will be presented to the Secretary-General in summer 2005. At the same time, the governance of country networks is crucial as the Global Compact seeks to manage growth and scale up efforts. It is also at the local level where many of humanity's problems reside, business dilemmas exist and the needs are the greatest. Moving forward, active country networks will seek to scale up activities, while sleepy networks must become more dynamic, or fade away. Country networks will also be critical with respect to protecting the integrity of the initiative and its brand through, for instance, encouraging companies to communicate progress and helping to resolve any issues and concerns related to specific company action.

As the Global Compact embarks on this critical next phase, in several fundamental ways, the nature of the Global Compact will remain the same. The Compact will remain an open and voluntary initiative engaging with a wide spectrum of companies across the globe. Participating companies will continue to undertake to implement the ten universal principles and engage with other social partners in ways that give concrete expression to the core principles. Finally, the primary means for participant engagement will remain focused on learning, dialogue and partnerships.

While the nature of the Global Compact commitment and core activities will be retained, there will be three significant areas of evolution in the Global Compact's model of company engagement: (1) the Compact will focus on the challenges associated with global firms enter emerging markets and national firms in developing countries seeking to participate in the global marketplace; (2) the participation model will shift to greater emphasize the quality of company commitment to the principles; and (3) country networks will begin to formalize their structures and play a greater role in driving the Global Compact's development.

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