



19 February 2008

## GLOBAL COMPACT GOVERNANCE

From the day the Global Compact was launched at UN Headquarters in July 2000, its existence and operations have rested on two central pillars. One is the legitimacy of the Global Compact as a United Nations initiative; the other relates to public transparency and accountability and the way the constitutional contract between business and the UN is implemented. Government legitimacy and implementation accountability complement each other. The former would not be sufficient in today's world, as legitimacy can no longer just be mandated or bestowed by institutional *fiat*. As a function of individual or collective perceptions, it must also be earned through transparency, sincerity and credibility. These two components of Global Compact governance have evolved significantly over time, as has the supporting infrastructure that facilitates implementation.

### a) Government legitimacy

Thanks to Governments and the shrewd guidance of those who introduced and supported the GA item "Towards Global Partnerships" in 2000, successive resolutions have at least partly filled the void that was created when the Global Compact was launched. The adoption of the most recent General Assembly Resolution 62/211, not only provided a basis to renew the initiative's license to operate; it also strengthened the Global Compact Office and thus helps to secure its institutional independence and direct reporting line within the Organization. It further lends political protection to the necessary operational infrastructure, including local networks, the Board and the Foundation for the Global Compact.

Most important of all, this renewed GA support allows for the development of tailored intergovernmental oversight in the future. This pathway of progressive but measured governance legitimacy through the General Assembly may not provide all the answers at this juncture, but it does define a solid trajectory for the Global Compact, with built-in safeguards. Nonetheless, the Global Compact will in the future also need to earn its right to exist through performance and impact in the eyes of Governments and the public at large. This built-in sunset clause provides performance motivation and stimulates the always exciting search for innovations and continuous improvements.

### b) Implementation accountability

The other key governance component is the commitment that individual business leaders make to the UN when joining the Global Compact, and the way the



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implementation of this commitment is viewed, supported and assessed. It has evolved significantly over the past seven years. What has not changed, however, is the fundamental constitutional contract that initiates a value-based change process via a voluntary commitment by business executives to internalize the Global Compact and its principles (organizational change); and an agreement to take action in support of broad UN goals (the collaborative, partnership agenda). These dual objectives constitute the basis for engagement and define possible trajectories for implementation. Together, they define the meaning and practice of responsible, global corporate citizenship.

The Global Compact's integrity measures are proving useful and offer great promise in this regard. The outcome of substantive deliberations by the Board, the integrity measures were first introduced in 2005 and operationally implemented for the first time in 2006. They reinforce the learning and dialogue character of the Global Compact; define basic operational concepts of accountability; provide for effective referral to other instruments, including the OECD Guidelines; articulate a clear logo and branding policy; provide guidance for dialogue; and, above all, mandate public disclosure on progress. These measures are now being fully implemented under Board oversight. Already, over 900 participants have been de-listed for repeated failure to publicly disclose progress. While the integrity measures do not provide for qualitative differentiation, they do ensure some solid protection against free-riding, promote ownership by participants, and offer incentives for quality improvements over time.

In the meantime, a host of additional measures has been introduced to expand inducements at the point when the commitment is made (corporate board approval is now required along with the CEO commitment); to offer more implementation guidance for organizational change (e.g. a line of tools and activities related to performance models, and special guidance by issue and principle); and to encourage greater public transparency and social vetting. At the same time, the Global Compact Office has introduced targeted incentives with to sustain dynamics at the front-end (i.e., for "leaders"), while providing scalable entry-level platforms.

### c) Governance to support implementation

Government legitimacy and implementation accountability constitute the core elements of Global Compact governance. They are directly related to the basic contract that constitutes the Global Compact.

While the Global Compact Office has acted on behalf of the UN and a former advisory council has long represented the interests of participants, both business and other partners, the need for a clearer definition of roles became evident as the initiative grew globally and locally.



## United Nations Global Compact

A comprehensive, year-long review was undertaken during 2004-2005 with the full engagement and support of the UN Secretary-General, donor governments and many trusted experts. The structure that emerged is network-based. Individual components of the structure (Board, Global Compact Office, local networks, interagency team, and two standing convening platforms: the annual Local Networks Forum and the tri-annual Leaders Summit) are still in evolution. We began to implement the new governance structure in 2006.

The structure is tailored to allow for maximum ownership by participants (who have responsibility for implementation) while safeguarding the UN brand (a main function of the Global Compact Office) and providing facilitation and support where useful (all actors). It provides space for cooperation between public and private actors, balances the interest of business with labor and civil society, and allows for growth at global and local levels. It is designed to avoid capture by any one group or actor, to give maximum ownership to those who have the will and power to implement the commitment, and to offer platforms to develop practices and structures over time.

As a network-based governance structure it does not provide for central decision making. Neither the Board nor the Global Compact Office has the power to change the basic contract or to enforce specific implementation plans. The voluntary nature of the Global Compact means that activities can only be demand driven and any major changes require the explicit support of participants who made the commitment to implement the Global Compact. Implementation is thus not based on conventional top down decision making. Instead, it is designed to facilitate the implementation of the basic contract by allowing for maximum space for opportunity-led actions according to roles and responsibilities. Those roles are described in detail for every component in our governance paper, which was endorsed by the UN Secretary-General, the Board and Donors in 2006. A brief review and appraisal may be helpful:

- 1) The Board brings together business representatives, labour and civil society – appointed by the UN Secretary-General in their personal capacity. Over time, Board members are expected to represent participants by regions of the world. Chaired by the UN Secretary-General, it is primarily responsible for oversight of all qualitative measures that affect implementation, notably the integrity measures. The Board also gives guidance to the Global Compact Office on broad strategic matters. The current Board is very active and meets at least twice per year. Board members are also expected to act as champions (a few of them, however, do represent institutional interests, notably the employers and workers) and, more recently, Board working groups have been created to advance the core issues of the Global Compact (human rights, labour, and anti-corruption). These working groups have great potential to advance understanding of best practices in particular issue areas.



## United Nations Global Compact

The Board also plays a critical role in managing the multi-stakeholder configuration of the Global Compact with labour and civil society as important partners in the implementation of the Global Compact. The Board has made important contributions in defining respective roles and in building consensus. Over the years, much trust has been built and formerly adversarial positions have given way to pragmatic cooperation. Nevertheless, the issue of how best to involve civil society and labour remains an ongoing challenge and broader societal changes – for example, a new backlash against liberalization of trade and investment, or trade-related issues around climate change – could easily ignite fresh discontent which could spill over into the Global Compact.

- 2) The Global Compact Office acts as a hub providing support for the other components, while also supporting growth and advocacy. Its Executive Director is appointed by the UN Secretary-General and there is a clear internal reporting line. The Global Compact Office has the primary responsibility for brand and participants-management on behalf of the UN. Funded through extra-budgetary contributions, its activities are reviewed by Governments who provide funding with the GA exercising progressive political oversight. The funding tool, the Trust Fund, is subject to stringent UN rules and procedure with clear oversight and financial accountability procedures. A recent OIOS audit has confirmed the soundness of financial management.

The Global Compact Office and the Board have a close working relationship. While there is no direct reporting line between the Global Compact Office and the Board (non-UN entities cannot supervise UN entities), in practice the Global Compact Office responds efficiently to the Board's requests and acts as a secretariat for decisions regarding implementation accountability and other consensus decisions. With the new Board working groups now created this cooperation is deepening even further.

- 3) The interagency team is part of the Global Compact's linkages with the UN. Dedicated staff members in various UN organizations manage the Global Compact within their respective organizations and some act as guardians of the principles. More recently, the Global Compact has also been embraced by a growing number of other UN entities, thus broadening its reach as a value platform in partnering with business. Ongoing work supported by the Global Compact Office – such as updating UN-business guidelines, preparing accountability tools for partnerships, developing a system-wide website, offering training opportunities through the UN staff college and other entities, and organizing information sharing and learning encounters – will further strengthen the Global Compact as an entry platform for UN- business partnerships.



## United Nations Global Compact

- 4) Local networks, of which there are currently over sixty, are critical to support and embed the Global Compact within specific contexts. Their governance role relates to their functional capacities to advance the Global Compact, including support for the integrity measures and brand management. They mirror the role of the Global Compact Office at the local level. Some networks have already reached a level of organizational robustness to support and initiate activities on a self-sustained basis. Others are still at an early stage and many depend on UN support on the ground. There is broad consensus that all local networks should be business-led yet multi-stakeholder and efforts are currently under way to achieve this.
- 5) The Local Networks Forum is the annual meeting for local network managers, and has proven to be an important platform to share good practices and to build stronger organizational coherence within and across regions. The forum has not yet played its full governance role, but over time it is likely to assume greater governance functions with regard to establishing communication protocols and accountability processes, and delivering functionalities for networks – the basic outlines of which have already been developed.

The relationship between global and local activities and their organizational support structures requires complex communication management. The relationship has not yet fully matured as many local networks still need to develop their full functional capabilities. An added challenge is that many large participants engage only reluctantly in local networks, preferring to deal with the Global Compact Office and global platforms. As a result of the Leaders Summit in Geneva, major efforts are currently under way to motivate participants to work through local networks. Strengthening both the global and the local infrastructure and seeking to maximize their reinforcing relationships will over time lead to natural selection and the clarification of roles.

- 6) The Leaders Summit in Geneva was our second triennial gathering of participants at the executive level. Its primary function was to motivate top executives and other leaders to engage deeper, to launch new partnerships, and to build a broad roadmap for the future (the Geneva Declaration). The Summit also served as a platform to manage the initiative's transition from Secretary-General Annan to Secretary-General Ban. Future meetings of this kind could be organized very differently, with, for example, stronger involvement by Governments and investors and an emphasis on legitimizing future activities and specific goals. Also, on the practical side, there are important lessons to be drawn for the future. Above all, it would be highly desirable to organize such summits with a strong organizational partner (we have a solid offer for 2010).



## United Nations Global Compact

- 7) The Foundation for the Global Compact is not part of the governance structure. It is a private, not-for-profit entity under New York State Law. Its sole purpose is to mobilize funding from participants to support the growth of the Global Compact. Its small board is chaired by Sir Mark Moody Stuart who has been a champion and a steward of the Global Compact since its inception. We are confident that the Foundation will over time play a more important role in raising funds to sustain the initiative.

Some components of the Global Compact's operational governance are still weak. They require more time to develop their full functionality. There is also scope for improvements and a variety of refinements could be considered. But the basic network structure is solid and tailored for the Global Compact: balancing diverse interests while providing for maximum ownership and space to enable opportunity-led actions to grow while ensuring quality control and brand management.



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