

**SECOND GLOBAL COMPACT NETWORKS CONFERENCE  
4-5 November 2004, London**

**Background Note by the GC Office on Topic One:  
A Governance System for Global Compact Networks**

The Global Compact has grown rapidly. It is today the world's largest corporate citizenship initiative. To sustain growth and to achieve higher impact, the Compact must now manage a transition towards a business model that ensures more accountability and higher forms of value-added engagement while building a supportive governance structure that ensures greater ownership by participants.

UN Secretary-General Kofi Annan has given us one year to figure out how to manage this transition. A successful reconfiguration will need to deliver a revised business model for the initiative and a new governance structure.

A revised business model must build on the experiences made thus far and lead to greater value for participants so that participation in the Compact itself signifies positive performance change. A combination of approaches will be explored to bring about this transition, ranging from quality and accountability circles at global and local levels, more conceptualised learning and dialogue, greater emphasis on "Communication on Progress" as a proxy for engagement, improved communication and greater embeddedness in supportive policy frameworks and initiatives.

A new governance structure will need to lead to greater ownership by the participants, ensure the effective participation of all stake holders, establish an effective relationship with the UN and secure sufficient funding for the initiative to thrive.

A revised business model and a new governance structure will need to be:

- **Voluntary.** The Compact will remain a voluntary initiative. Ultimately, it can only succeed if the underlying business participation case is clearly established.
- **Inclusive.** The Compact will need to remain open to all who subscribe to the ten principles. Their public domain character, their universality and legitimacy are important components of the Compact's existential power.
- **Multi-centric.** There will be no single centre of power – they will be everywhere. The link between Global and Local will follow functional terms where effectiveness and impact in terms of positive change will be the overarching benchmark. However, the global level will have particular political and brand management responsibility.

- **Self-organizing and self-evolving.** The Compact will grow through self-organization rather than through centralized command-and control process. Every aspect of the organization will be subject to change as the whole evolves.
- **Participant-owned and participant-governed.** Participants will govern themselves and the parts of the network in which they operate. Any central board will be responsible only for those decisions that concern the whole of the system.
- **Diverse and adoptive.** There will be very few constraints on innovation and experimentation. Good ideas will be able to spread rapidly, while bad ideas will likely be chocked off.
- **Strongly cohesive.** A strong alignment with the mission of the Compact will allow all networks to pursue diverse approaches while contributing to the mission of the initiative.

The Second Networks Conference is a timely opportunity to advance the Compact’s reconfiguration. Local networks have the potential to become major hubs and crucial organizational units in the new organization. While important questions regarding the new business model and the function and composition of a global governing board need yet to be defined, progress regarding roles and functions of local networks will greatly advance our collective challenge.

Local networks have evolved unevenly. They differ greatly with regard to what they do, how they work and who participates. Many do not yet have the capacity to play an organizational role as outlined above but most have the potential to evolve further. We are committed to stimulate dynamic development so that local networks are motivated to build capacities and we will ensure that the open character of the initiative is maintained.

At the same time, we feel the time has come to define together what it would take for a local network to become a “licensed” local network (LLN) in the new organization. Already, we believe, some local networks are in a position to enter with us a pilot phase to test their roles and to advance our common challenges with regard to the business model of the Compact and its new governance structure. It is our hope that through such a pilot phase we will learn more and that within the near future more networks will join as the value of being a LLN becomes clearer.

To advance the question of the role of local networks in general and that of the LLN in particular the emerging business and governance model of the Compact, it is necessary to answer to the following questions:

## **1. Who constitutes an LLN and how is it governed?**

The Global Compact at the global level is multi-stakeholder with business, labour and civil society organizations playing important albeit distinct roles. We cannot impose the same structure in all regions or countries. Nor can we assume that one size fits all. We also understand that often there is a life cycle of local networks. Often, they start off as a business-to-business network and later they evolve into a more inclusive network. As we are trying to define LLNs, we need to explore together how best we can articulate a notion of inclusiveness and multi-stakeholder at the local level. At the same time, the question arises whether and if so which minimum governance structures a LLN should have to ensure that the Compact's integrity is sustained. Should there be minimum requirements for a steering committee in terms of composition and functions to be performed?

### **All four Breakout Groups on Topic One, First Step:**

**We need to define together how best to articulate the desired composition of a LLN and its minimum governance requirements.**

**What stakeholders should be part of any network?**

**How should decision making within networks be organised?**

**Who sets priorities?**

**Who represents the network with external stakeholders as well as with the GC Office?**

## **2. What governance responsibilities and opportunities would a LLN have?**

A LLN would be invited to carry out the same functions as a LN has done so far (assisting companies internalising the principles; undertaking learning, dialogue and projects; and motivating other companies to join). In addition, they would be given a renewable monopoly to use the GC brand, to collect membership fees from GC participants, to convene meetings and to approach companies directly. The GC Office would be prepared to steer companies to LLNs and to regard LLNs as the prime interlocutors within the emerging organization.

We would expect that a LLN becomes an integral part of the new organization and make its contribution to manage the brand of the Compact effectively, including:

- a) Collecting and eventually analysing the "Communications on Progress" from GC participants.

- b) Developing a minimum capacity to exercise quality control and effectively protect the brand from free riders or gross abuse and develop capacities to act accordingly.
- c) Convene a reasonable number of learning, dialogue, project and outreach events in the country.
- d) Once a year, submit an activities report on major developments. This report could become the basis for annual networks meetings, for exchanging experiences made and for comparing performances. It would thus become the basis for renewing the licence.
- e) If a LNN charges membership fees, what percentage should be given to the GCO to ensure effective cooperation and support?

**All four Breakout Groups on Topic One, Second Step:**

**Are these requirements manageable? Which models exist already that show that a decentralization of governance responsibilities empowers local networks? Can we learn from these examples already and can we refine the governance requirements?**

**The annual activities report will take centre stage in future discussions. It is important that we develop a shared understanding as to what should be in such a report. Can we agree on basic issues/activities that should be included in such a report? Can we develop a broad outline together? What are the minimum activities one would expect a LLN to report on?**

**3. How would an LLN relate to the overall governance of the Compact?**

If LLNs thrive then we will have to answer a host of questions. First, how do they relate to other local networks within the same geography and across countries within the same region. Second, how do LLNs relate to global governance.

Given the dynamic evolution of local networks in general, one would need to anticipate different stages of development of individual networks. The point at which a local network graduates into a LLN will mark an important turning point within the geography where it operates. The GCO will do everything possible to support the LLN and to ensure that it has the exclusive right to use the brand. We do anticipate complicated times ahead as there is competition in some countries or regions. We are ready to do what it takes in this regard.

With respect to horizontal cooperation across countries within the same region, we support efforts to create regional hubs to the extent that capacities and natural growth exists. Already, a hub for sub-Saharan Africa is being established; in South Asia much

progress has been made and other regions such as Latin America are making progress towards regional hubs.

The question how LLNs relate to global governance remains an open one. There are competing design principles for the new organization. On the one hand, there is a strong desire to maintain the “global” character of the initiative and to build a strong global governance board with a strong UN link. On the other, given the scale of the initiative, it is obvious that the Compact can grow only if we succeed in building multi-centric and decentralized hubs that root principles and actions in a local context. Striking the right balance between global and local centres and defining key functions for each will be critical for a successful reconfiguration. It raises functional and governance questions.

At the functional level, the issue is how best we can maximize learning and communication – global to local and, vice versa, local to global. Are there promising approaches we have yet to explore? For example, would it make sense to run an annual campaign at global and local levels, promote learning and dialogue and use existing methodologies such as case studies and case stories with a view to integrate such findings in a special communications effort? What other incentives and approaches would need to be developed to maximize synergies between the local and the global levels?

At the governance level, specific questions as to who is on the global board, who issues licences and how is quality oversight assured will need to be explored in detail.

**All four Breakout Groups on Topic One, Third Step:**

**How can networks democratically participate in any global board decisions?**

**How should the global-local link be articulated by functions (communications, dialogue, etc) and by governance responsibilities?**

**Which approaches should be developed to ensure maximum interaction and learning between the local and global level?**

**How can LNNs best cooperate where conducive to success? Are regional hubs helpful? Are annual meetings helpful?**

We are convinced that the Global Compact has the potential to deliver more impact across the world. We are aware that the above issues raised will be seen from different perspectives and may raise negative reactions for one reason or the other. However, if we are to manage growth and if we are to move the Compact to its next performance level then we need to tackle these issues now. We are committed to working on this with you together.

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