Global Sustainability in the 21st Century
An Action Plan for Business

January 2009

Context

The fallout from the global financial crisis has put a spotlight on issues that the United Nations Global Compact has long advocated as essential responsibilities for the modern corporation, and thus the overall integrity and sustainability of today's global market. Issues of comprehensive risk management, long-term performance and ethics are now rapidly gaining relevance and consideration.

In addition to poor regulation and oversight, key factors in the financial crisis were inadequate assessment of risk and focus on short-term returns. The overriding message is clear: Our globalized marketplace requires a stronger ethical orientation and more comprehensive understanding, assessment and management of risks. This expanded risk paradigm must include not only traditional business and financial factors, but also material extra-financial issues in the environmental, social and governance (ESG) realms.

Restoring confidence and trust in markets requires a shift to long-term sustainable value creation, and corporate responsibility must be an instrument towards this end. It is time to build on the advances made over the past ten years by companies and investors in the area of ESG performance and bring this discipline to the mainstream.

By understanding and broadly applying key lessons from the financial crisis, there is a genuine opportunity to alter the course of other crises that will otherwise have systemic and game-changing consequences, notably climate change. Crises linked to issues including food, water and energy also pose serious threats. The call for governments, financial institutions, corporations and citizens to responsibly manage these risks is urgent.

Following are pertinent lessons from the financial crisis:

- **Integration of long-term considerations and comprehensive risk management into market expectations and corporate strategy:** Financial markets' obsession with short-termism over long-term considerations played an important role in destabilizing markets. At the same time, there has been insufficient respect for ESG issues which have gained in materiality in an unprecedented age of global risks, particularly climate change, water and poverty.

- **Leadership for stakeholders, not only shareholders:** Accusations of greed, fraud and abuse – ultimately disregard for ethics and the interests of society – are numerous in the wake of the financial crisis. A number of financial and corporate leaders have been blamed for focusing on delivering rewards to a relative few at the expense of the taxpayers now paying for bail outs. Companies operating in the new global context must respond not only to investors, but also consider interests of employees, communities and other key groups.

- **Development of effective disclosure standards, regulation and oversight:** Lack of transparency and disclosure allowed too many organizations to hide poor practices that eventually led to financial collapses and liquidity crises, as well as lost homes, jobs and pensions. Insufficient or ineffective regulation and oversight in the financial markets were part of the problem. Among the failures was a lack of consideration for consumers and investors, with those responsible for assessing risk not adequately doing so. Additionally, frameworks have been deemed outdated for the sophisticated capital flows and financial products in today's globalized market. Reform will undoubtedly require increased international cooperation and coordination.

- **Interdependence of economies:** The contagion witnessed in this crisis is the proof point to an already strong understanding of the systemic risks of a highly interdependent world. Just how rapidly the collapse of the US mortgage scheme led to a global financial sector crisis, and then a subsequent global economic downturn is a wake-up call. All economies – developing to advanced – have been affected to varying degrees. On top of massive investment losses and loan failures, many countries face imminent threats of increased poverty and social ills.

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A renewed call for corporate responsibility – through the observance of universal principles in the areas of human rights, labour, environment and anti-corruption – must be made. Today's confluence of global threats, most prominently the global economic downturn and climate change, provides the most compelling and rational case for:

- Embracing an expanded view of risk and opportunity management to include ESG factors;
- Increasing focus on long-term value creation in companies and markets; and
- Emphasizing responsibility and ethics to drive confidence and trust.

By taking proactive and strategic actions on environmental, social and governance issues, in line with the principles of the United Nations Global Compact, business can contribute to a more sustainable and inclusive global economy.

The following is a framework for action:

1. Implementation and disclosure of ESG issues

The economic downturn poses a real challenge for many companies, yet should not be used as an excuse to ignore or cut back on issues that directly impact the value of business. Issues such as climate change, human rights and corruption will not vanish as a result of economic decline, indeed some worsen. For example, downsizing, labour unrest and increased poverty are gaining in importance. Short-term stimulus and recovery plans within companies must be mindful of ESG impacts.

More companies need to engage more deeply on ESG issues through the United Nations Global Compact and comprehensively disclose their efforts:

- **ESG in the boardroom.** Boards and other corporate governance entities have the ultimate responsibility for the long-term stewardship of the organization. In this regard, they are responsible for assessing and overseeing risks posed to the enterprise – financial and extra-financial. Recent studies indicate that a minority of boards are adequately addressing traditional risks, and even fewer are equipped to do so in the environmental and social realms. Companies should integrate ESG issues into boardroom deliberations and policymaking.

- **Subsidiaries and supply chain.** Without a deeper penetration throughout companies and value chains, corporate responsibility efforts will have limited impact. While CEO ownership of ESG issues has grown, the momentum has not sufficiently moved down the organization and out to subsidiaries and supply chains. It is time to move from pilot programmes in select corporate departments to an integrated approach to implement all United Nations Global Compact principles throughout and beyond headquarters, and then report on these efforts.

- **Comprehensive and accurate disclosure.** Without more comprehensive and accurate disclosure, making a strong link between ESG performance and long-term value will be difficult. The United Nations Global Compact's Communications on Progress (COP) framework was introduced for this purpose and has resulted in the submission of nearly 5,000 reports by participating companies. And all United Nations Global Compact special projects – such as the CEO Water Mandate and Caring for Climate – have disclosure requirements. Companies of all sizes are called on to use established frameworks and indicators when reporting, such as the Global Reporting Initiative. Additionally, much work remains to be done to develop methods for measuring performance in many areas, including anti-corruption and climate. Limited early efforts by companies to include ESG figures in annual financial reports have been undertaken and mark an important shift in thinking on the financial materiality of these issues.

- **Engaging the investment community.** One of the most important trends in recent years has been the movement by mainstream investors to identify and integrate ESG issues into relevant policies and investment decision-making. This provides a powerful impetus for companies to implement and disclose performance on these issues. It is not just the growth of the responsible investment community that is promising – for instance the UN

Principles for Responsible Investment now includes 470 signatories with around USD 18 trillion of assets under management – but also the campaigns being undertaken to encourage business action. Companies should take this growing opportunity to more actively communicate their ESG policies and performance with investors – emphasizing materiality and the links to corporate value drivers.

2. Climate Change

The risks from climate change are intimately linked with issues at the core of the corporate responsibility movement: human rights, labour and good governance. It threatens all goals for development and social progress. A global agreement on climate that results in a sufficient price for carbon will help ensure the continuation of a global marketplace based on openness and competition. On the other hand, the trade tensions and discriminatory carbon tariffs that would result from a failure to find agreement could destroy the underpinnings of the global economy upon which so many companies and investors are reliant. The ability of stakeholders – namely government and business – to cooperate and collaborate to find climate solutions will be the litmus test for the sustainability of our current global market system.

- **Building a green economy.** Only a small fraction of business leaders have so far taken the climate agenda seriously. It is time to change course and help build a green economy. Business must answer the call to create a future based on a low-carbon economy – green jobs, renewable energy and energy efficiency – and make use of their supply chains to ensure that the cleanest technologies are developed and applied everywhere.

- **Caring for Climate.** Companies are urged to join Caring for Climate, the world's largest business-led initiative on climate change in which chief executives commit to undertake comprehensive climate policies and disclose carbon emissions. In addition to assisting companies in the development of effective climate policies, Caring for Climate also provides a channel for the business community to contribute inputs and perspectives to key governmental deliberations.

- **Water stewardship.** A critical – and related – issue for business action is water sustainability. Through the CEO Water Mandate, the United Nations Global Compact provides an avenue for advancing corporate water stewardship. The initiative assists companies in the development, implementation and disclosure of water sustainability policies and practices. Examples of efforts include drip irrigation, water harvesting and new technologies for recycling water from manufacturing.

- **Business vision for COP 15.** It is essential for business to be part of the movement for a comprehensive and meaningful agreement at COP 15, the climate change summit in Copenhagen at the end of 2009. Leading up to COP 15, a World Business Summit on Climate Change will be co-convened by the United Nations Global Compact and other partners on 24-26 May 2009. At the Summit business leaders will deliver a shared vision and a set of recommendations from a business perspective towards a new, global framework on climate change.

3. Collective action

Our greatest global challenges will only be solved by cooperation. Effective partnerships can make it possible to overcome dilemmas that are too difficult or complex for one organization or sector to address alone. More and stronger collaboration between governments, civil society and the private sector is demanded.

- **The voice of business.** The collective voice of business can lead to significant changes in expectations. Business initiatives have made important contributions to norms and standards – sometimes joining together on issues, such as corruption and nutrition, or by sector, such as extraction and textiles. It will only be through joining together in a strong showing that business can help to rapidly move the climate change agenda in the right direction. Enormous needs also exist in relation to water, food sustainability and supply chain standards.

- **Public-private partnerships.** Almost all United Nations entities now work with business and civil society to address the Millennium Development Goals, as well as issues such as security and disaster relief. Increasingly government development agencies engage the private sector in coalitions and community-based initiatives. This momentum must be harnessed and a renewed focus placed on collaboration, with a move from pilot projects to large-scale transformative initiatives.

4. Global frameworks and national regulation

Today, there is an opportunity for chief executives to exercise business statesmanship by supporting solutions to issues, including climate change, anti-corruption and other key areas. Too often there remains a disconnect between a company's commitments on responsible corporate citizenship and their lobbying.

- **Global frameworks: COP 15.** When possible, business is urged to positively influence their government in relation to the 2009 Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 15) where a comprehensive global agreement replacing the first commitment period of the Kyoto Protocol needs to be negotiated.

- **National policy.** There are several important opportunities linked to national regulation. Related to climate, business should support and not obstruct higher performance standards in critical areas such as energy efficiency and investments in new technologies which will lead to low-carbon economies. Domestic stimulus packages implemented in response to the economic downturn must be carried out with sufficient transparency and oversight. Calls for regulators to require listed companies to disclose ESG performance should be supported. And efforts by governments to encourage business to implement ESG issues promise to bring increased attention and scale to corporate responsibility.

About the UN Global Compact: Launched in 2000, the UN Global Compact is a both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption and to catalyze actions in support of broader UN goals. It is the world's largest voluntary corporate citizenship initiative, with over 6,500 signatories based in more than 130 countries. For more information, please visit www.unglobalcompact.org.