



## **The Global Financial and Economic Crisis: *The Role of Corporate Responsibility and the UN Global Compact***

**Briefing for Member States  
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With the financial crisis provoking the worst global economic downturn since the 1930s, issues of ethics, comprehensive risk management and long-term sustainability are at the fore. The overriding message is clear: *Our globalized marketplace requires a stronger ethical orientation and more comprehensive management of risks.*

Since launching in 2000, the United Nations Global Compact has worked to embed principles, values and responsibility into the global marketplace, recognizing that otherwise it will fail to benefit a majority of society and, ultimately, be unsustainable. In the current environment of upheaval and uncertainty, the UN Global Compact has much to contribute.

Restoring trust in markets, and ensuring they are inclusive and serve the poor, requires a shift to long-term sustainable value creation. In addition to regulation in financial markets, there must be a broad call for corporate responsibility – through the observance of universal principles in the areas of human rights, labour, environment and anti-corruption.

### ***Lessons from the Financial Crisis***

Key lessons emerging from the financial crisis are directly related to issues that the UN Global Compact has long focused on, specifically:

- **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 issues which have gained in materiality in an unprecedented age of global risks, particularly climate change, water and poverty. An 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.
- **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. 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.

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.

### ***The Role of Corporate Responsibility***

As business is adjusting to new economic and global realities, there is an opportunity to reorient towards sustainability. Today's confluence of global threats provides the most compelling case for companies to:

- Proactively embrace an expanded view of risk and opportunity management to include ESG factors;
- Increase focus on long-term value creation; and
- Emphasize the role of responsibility and ethics in driving confidence and trust.

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

Priority areas for action under the UN Global Compact framework for corporate responsibility include:

- 1. Implementation of universal principles:** More companies need to engage more deeply on ESG issues through the UN Global Compact. It is time to move from pilot programmes in select corporate departments to an integrated approach to implement all UN Global Compact principles throughout and beyond headquarters, into subsidiaries and the supply chain. Within companies, boards and other corporate governance entities are also called on to better integrate ESG issues into their deliberations and policymaking, as they have the ultimate responsibility for the long-term stewardship of the organization.
- 2. Comprehensive disclosure:** Without more comprehensive and accurate disclosure, making a strong link between ESG performance and long-term value will be difficult. The UN Global Compact's Communications on Progress (COP) framework was introduced for this purpose and has resulted in the submission of over 5,000 reports by participating companies. Companies struggle to report in a comprehensive manner – too often focusing on policies, with limited detail on impacts. As of May 2009, the UN Global Compact has removed nearly 900 companies from the initiative for failure to communicate progress.
- 3. 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, but also the campaigns being undertaken to encourage business action. Companies are called on to actively communicate their ESG policies and performance with investors, emphasizing materiality and links to value drivers.
- 4. 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. Business must answer the call to create a future based on a low-carbon economy and make use of supply chains to diffuse clean technologies. Through our Caring for Climate and CEO Water Mandate initiatives, hundreds of UN Global Compact participants are developing, implementing and disclosing related policies and performance. In May 2009, business leaders issued the "Copenhagen Call" to governments, appealing for a new global climate treaty that sets bold targets for emissions reductions by 2020 and 2050.
- 5. Collective action:** Effective partnerships can make it possible to overcome dilemmas that are too difficult or complex for one organization or sector to address. The collective voice of business can lead to significant changes in expectations. Business initiatives have made important contributions to norms and standards, for example in the area of anti-corruption. Almost all UN entities work with business and civil society to address the Millennium Development Goals, as well as issues such as security and disaster relief. More and stronger collaboration is demanded.
- 6. Global frameworks and national regulation:** Too often there remains a disconnect between a company's commitment around responsible corporate citizenship and their lobbying. The UN Global Compact is urging business to call for a comprehensive global agreement on climate change in Copenhagen at COP15. At the national level, business is called on to support higher performance standards in critical areas such as energy efficiency and investments in green technologies. In the area of corruption, Global Compact CEOs have called on governments to effectively and robustly implement the United Nations Convention against Corruption (UNCAC).

The potential of business to help restore confidence in the marketplace and change the course of global threats will only be achieved with a significant increase in the number of companies strategically addressing ESG issues. The UN Global Compact is working hard to ensure that the good progress achieved in recent years is advanced – not reversed – in the current turbulent economic environment.

**About the UN Global Compact:** Launched in 2000, the UN Global Compact is 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](http://www.unglobalcompact.org).