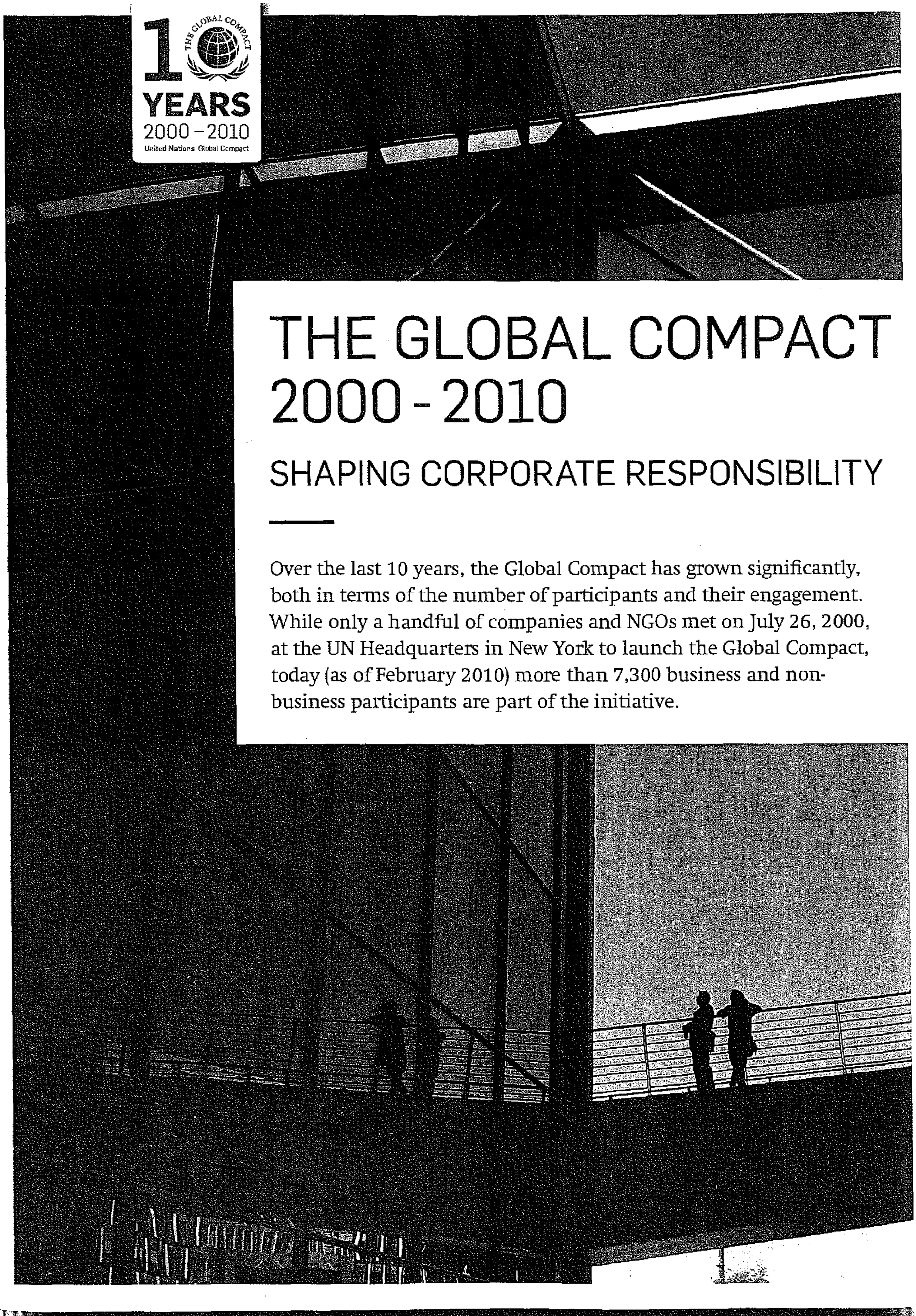
10 YEARS
2000 – 2010
United Nations Global Compact



THE GLOBAL COMPACT 2000 - 2010

SHAPING CORPORATE RESPONSIBILITY

Over the last 10 years, the Global Compact has grown significantly, both in terms of the number of participants and their engagement. While only a handful of companies and NGOs met on July 26, 2000, at the UN Headquarters in New York to launch the Global Compact, today (as of February 2010) more than 7,300 business and non-business participants are part of the initiative.

By Prof. Andreas Rasche

Historically speaking, the Global Compact reflects a true rapprochement between the United Nations and the business community. The underpinning belief of the Compact — that there are interdependencies between the agenda of the UN system and the activities of businesses — sounds more appealing than ever in today's global economic context. Shaping the post-crisis environment in a constructive manner suggests a reemphasis on the fact that global markets have to be embedded in shared values and long-term business practices. This will require questioning long-held assumptions and redefining the role of business in global society. Like any rapidly expanding organization, the Global Compact has to reflect on its achievements, spot emerging trends, and address its challenges.

Achievements: Looking back

The surveys conducted for the Global Compact Annual Reviews show that participants have advanced their corporate responsibility practices over time, while, concurrently, implementation gaps remain a reality. However, the Global Compact's achievements can also be discussed when looking at how the initiative has influenced corporate responsibility as a societal phenomenon.

Shaping the debate:
By the end of the last century, corporate responsibility — though prevalent among most large national and multinational corporations — was a fairly disentangled phenomenon. Through its 10 universal principles, the Global Compact structured the debate without being overly regulative and thereby destroying the possibility for innovation. As continuously highlighted by its executive director, Georg Kell, the Ten Principles act as a "moral compass," offering guidance to business and non-business actors for them to reflect on and advance their operations and strategies. In particular, small and medium-sized enterprises (SMEs) have entered the corporate responsibility domain through the Global Compact. SMEs, which are often part of global supply chains, play a pivotal role when thinking about how to implement corporate responsibility practices in the local context.

Being global and local:
The Global Compact has succeeded in building a truly global initiative that is, at the same time, rooted in local action. Through its numerous Local Networks, the Compact built bridges between abstract universal principles and contextualized action on the ground. Many Local Networks were set up in countries or regions where multi-stakeholder collaboration had been a largely unknown phenomenon. The Compact has a particularly strong foothold in essential economies like China and India, both of which play a significant role when looking at the issues covered by the Ten Principles. By now, China and India are among the largest Local Networks and provide a significant share of the overall signatory base.

Cooperation, not confrontation:
There can be no doubt that single actors will not solve the existing global challenges. Isolated action cannot be the answer to multifaceted and dynamic problems. The Global Compact has proven to be a platform to channel the collective voice of business in the context of many well-known issues (e.g., climate change and water sustainability). Many public-private partnerships have been initiated under the umbrella of the Global Compact. Sustaining and deepening these partnerships is critical to induce change on a local level. The last 10 years have shown that to stimulate change in the context of the Ten Principles, there needs to be cooperation between a diverse set of actors. The Global Compact offered a much-needed "discursive space" for such cooperation to prosper.

Trends: Staying tuned

Over its years of existence, the Global Compact has shaped and, at the same time, has been shaped by a variety of trends. Throughout its rather short history, the initiative has witnessed a fundamental change in how, where, and which businesses handle corporate responsibility issues.

Globalizing corporate responsibility:
Corporate responsibility — which up until a few years ago was largely a concern only of Western multinationals — has evolved into a truly global phenomenon. Especially emerging economies like China and India have entered the corporate responsibility universe and started to build up localized knowledge and best practices. This development highlights the need for increased collaboration, not only among multiple stakeholders, but most of all across continents and regions. As corporate responsibility practices have turned global, so have many of the problems underlying the debate.

From philanthropy to strategy:
Corporate responsibility has turned from philanthropic action into a strategic and operational concern. Corporations join the Global Compact for reasons of risk mitigation and opportunity-seizing, and not primarily for brand differentiation or public relations. The 2008 Global Compact Implementation Survey finds that corporations are aiming at integrating environmental, social, and governance (ESG) issues into their corporate strategies and value chain activities. Isolated philanthropic activities, as good as their intention may be, are not driving the agenda anymore.

Linking financial markets:
The link between financial markets and corporate responsibility is growing stronger. The Global Compact, through its engagement in the Principles of Responsible Investment (PRI), has significantly supported this process. A swiftly growing community of asset owners and asset managers commits to considering ESG issues in their investment decisions. The recent global financial crisis has reinforced the need for long-term, sustainable investment strategies over short-term considerations. While improved governance of financial markets cannot solely rest on voluntary initiatives like PRI and needs to be backed up by legislation, there is no doubt that further recognition of ESG issues by the investment community would act as a strong driver of the corporate responsibility agenda.

Challenges: Moving on

Every organization faces challenges in shaping its strategy and future positioning. Accepting these challenges means being willing to learn. The Global Compact has addressed many of its challenges, largely because of its dynamic and non-bureaucratic organizational design. For instance, it introduced the Communication on Progress (COP) reporting requirement and delisted those participants failing to disclose their practices and results. However, a variety of challenges remain.
Improving implementation:
The 2008 Global Compact Implementation Survey revealed various implementation gaps. In a world of globally interconnected value and supply chains, the Compact's principles have to move beyond corporate headquarters. The contribution of subsidiaries and supply partners has to be deepened when thinking about how to put the Ten Principles into practice. This will require advancing businesses' corporate responsibility policies and further developing existing management practices. The 2008 Implementation Survey identified only 8 percent of all participants as "advanced" performers, with the majority of participating businesses ranking as intermediate performers. The key challenge will be helping "beginners" to scale up their corporate responsibility performance, while maintaining the strong position of the "advanced" companies. Deepening implementation not only requires ample resources but, above all, management know-how and the understanding that corporate responsibility issues reflect a key strategic priority. Creating such know-how requires, among other things, the ability to identify and report on quantitative metrics that reflect a company's performance with regard to ESG issues. As it is commonly said in management jargon: What you cannot measure, you cannot manage.

Developing issue platforms:
To consider the contextualized and interconnected nature of corporate responsibility problems, the Global Compact, together with other organizations, has developed issue platforms to give participants a chance to demonstrate leadership regarding responsible investment (PRI), climate change (Caring for Climate), water sustainability (CEO Water Mandate), and responsible management education (The Principles for Responsible Management Education). While all these initiatives have gained momentum, it is also clear that large-scale action depends on more participants joining these issue platforms. Change comes from well-coordinated individual and collective action; expanding the signatory base of Global Compact issue platforms is crucial for this change to occur.

Advancing Communication on Progress reporting:
Disclosure on implementation progress is one important way for corporations to demonstrate commitment to the Global Compact. While approximately 7,000 COP reports are already available on the Global Compact website for public review, it is also clear that the overall quality of reporting has to improve. Only a small number of companies are using established disclosure frameworks, like GRI G3. The challenge is to not only report on corporate policies and unconnected projects, but to show clear evidence of "on the ground" impacts based on measurable and transparent indicators. So far, the Global Compact was forced to delist over 1,800 companies (as of February 2010) for failure to submit a COP. While most multinational and large national companies have experience in non-financial reporting, disclosing information on the implementation of the Ten Principles is new territory for many SMEs.

Assisting companies that are seeking further information and practical guidance on high-quality non-financial reporting is a key challenge to get the most out of the Communication on Progress requirement. The bottom line is that without a more rigorous approach toward annual disclosure, it will be hard for stakeholders (e.g., investors) to judge whether and how a company performs with regard to the Ten Principles.

All of these challenges point to a common topic: achieving and managing sustained growth (a) in terms of the quantity of business and non-business participants, and (b) in terms of the quality of their engagement. Such growth is necessary since Global Compact participants still represent a rather minor share of corporate activity throughout the world. Mainstreaming corporate responsibility practices and addressing the Ten Principles on a larger scale is only possible if more corporations engage more intensely in the Global Compact. This, however, will create a variety of management challenges for a network-based organization with scarce financial and non-financial resources. Local Networks, through their capacity on the ground and contextualized knowledge of participants, will play a pivotal role in managing the sustained growth of the initiative.

The Global Compact is well-equipped to cope with these (and other) challenges. If we look up the word "compact" in Webster's Third New International Dictionary, we are told that it reflects "an agreement, understanding, or covenant between two or more parties" echoing "a degree of strength." If business and non-business actors remind themselves of this degree of strength and their common belief in the significance of the Ten Principles, there is no doubt that the Global Compact will successfully shape corporate responsibility practices throughout the next decade.

The Global Compact and sustainable capitalism

Renowned management thinker Peter Drucker (1909 – 2005) once said that "Management is doing things right; leadership is doing the right things." While it is still unclear what precise long-term effects the multiple crises had on corporate responsibility, there is no doubt that to change present business practices, we need both management and leadership. We need inspiring leaders who fundamentally rethink existing business models and align them with the changing economic realities. And we need managers who turn this vision into reality by developing and implementing new business practices.

When leadership and management commingle in this way, there is a good chance that we may see the rise of what Al Gore and David Blood call sustainable capitalism (see Wall Street Journal, November 5, 2008, page A23). The Global Compact provides a web of universal values that can underpin such a new form of capitalism, values emphasizing the long-term effects of business decisions and good governance of markets. Sustainable capitalism is based on the convictions that future economic growth depends on true business innovations (and not juggling with enormous sums of money); that externalities will have to be internalized (and not ignored); and that reflections on the purpose of business in global society need to move to the heart of management practice (and not be perceived as an add-on).

Sustainable capitalism, if taken seriously, requires a different way of thinking and, as a consequence, a new set of leadership skills. Managers need to look at the global economy and the embedded business practices from the perspective of systems thinking. The global economy affects and is affected by many interrelated systems – for instance, but not limited to: the natural environment, financial markets, political leadership, civil society, and business practices on the ground. These systems interact, often in unpredictable ways. If we want to avoid stumbling from one crisis to another, we need to identify the interaction effects among these systems and discuss how to address the resulting risks. We need a more holistic way of thinking about existing and future problems. Otherwise, solutions will reflect only isolated actions.

Developing sustainable capitalism means to not let short-term thinking drive out long-term practices. Corporations participating in the Global Compact agreed to be part of a long-term understanding of capitalism and to work toward inclusive markets based on a set of 10 universal principles. No doubt, transformative actions and changes require, above all other things, hard work. This, of course, represents a fundamental challenge, but as Thomas Alva Edison already acknowledged: "There is no substitute for hard work." ■

Andreas Rasche is Assistant Professor of Business in Society at Warwick Business School, University of Warwick, UK.