

# The Global Compact

## Selected Experiences and Reflections

Georg Kell

**ABSTRACT.** In this paper, the Executive Head of the Global Compact shares some of his own reflections on the evolution of the Global Compact initiative – United Nations Secretary-General Kofi Annan’s voluntary corporate citizenship initiative in the area of human rights, labor, the environment and anti-corruption. Two main themes are addressed. The first considers the Global Compact’s institutional context, examining how such an initiative is even possible in the historically hierarchical and traditionally business-unfriendly UN. The second concerns the voluntary nature of the initiative and how it interacts with regulatory approaches. It explains what the Global Compact has to offer as a voluntary initiative, as well as how it can make a unique and complementary contribution to regulation-backed initiatives. The paper concludes with a brief consideration of what the future holds for the Global Compact.

### Introduction

When United Nations Secretary-General, Kofi Annan, addressed a plenary session of the World Economic Forum on January 31, 1999, it was neither planned nor imagined that his speech – “The Global Compact” – would mark the beginning of a global corporate citizenship initiative. The idea started to take root rapidly, however, and on July 26, 2000, the Global Compact

was launched as an operational initiative at the United Nations Headquarters with the support and participation from multinational companies, global trade unions and civil society organizations. Since then, the Global Compact has grown organically into a worldwide network of companies, labor organizations and civil society organizations – all contributing to dialogue, learning and projects that give practical meaning to nine universal principles on human rights, labor conditions and the environment. This rapid growth took place against a backdrop of significant experimentation and learning. High expectations created by the speech and subsequent pronouncements created enormous pressure to deliver. The Global Compact “Office,” consisting of only John Ruggie, Denise O’Brien and myself, had to invent solutions and scramble for operational tools to “give globalization a human face” and to juggle the conflicting interests of the initiative’s participants. This was a challenging proposition given a lack of funding and the absence of in-house expertise, and it left indelible marks on the not-so-halcyon early days of the Compact.

In this paper, I would like to share some reflections on this early period in the development of the Compact. I will not do so in an analytical mode, as this has already been done elsewhere,<sup>1</sup> nor will I retell the details of the Compact’s evolution and progress, which is described at length on the Compact’s website.<sup>2</sup> Instead, I offer a subjective perspective and weave into the story of two leitmotifs that are still relevant today. The first theme, which relates to the institutional setting of the Global Compact, is the ability of the historically hierarchical United Nations (the UN or the Organization) to support a diffuse, network-based initiative, and the willingness of

---

*Georg Kell began his career at the United Nations in 1987–1990: UN Conference on Trade and Development (UNCTAD), Geneva. 1990: he joined the New York office of UNCTAD; 1993–1997: head of the office. 1997: senior officer at the executive office of the Secretary-General responsible for fostering the cooperation with the private sector. Since 2000, executive head, Global Compact, United Nations, New York.*

Member States to grant the Organization sufficient authority to deal with international business.

The second theme is the central issue of whether the Compact, as a voluntary initiative, can make a significant contribution and how it relates to regulatory approaches. The answer to this question depends on the willingness and ability of non-state actors, such as multinational corporations, trade unions and civil society organizations, to find solutions to the challenges that economic openness poses to societies at large. Equally relevant are the willingness of different actors to cooperate, the existence and extent of self-enlightenment, and the dynamics of critical mass of first movers.

These two leitmotifs are basic assumptions underlying the viability of the Compact. Experiences to date suggest that success is far from assured. There is little doubt that the Compact will remain an ongoing experiment, testing the limits of self-enlightened engagement and the boundaries of the Organization's political and operational spheres. However, reflecting on these issues will hopefully provide insights and understanding into the brief trajectory that the Compact has charted thus far.

### **The institutional setting: from code to compact**

Because the Compact is an initiative of the UN, its fate is inextricably tied to the relationship between the Organization and the business community, especially, transnational corporations. Indeed, from an institutional viewpoint, the Compact's greatest significance may be its catalytic impact on the Organization, fostering a new era of cooperation with the business community and overcoming a recent past of mutual suspicion. Bringing about a fundamental change in this relationship has broad political and operational significance, as the following discussion reveals.<sup>3</sup>

The relationship between the UN and business has undergone radical changes since the Organization was created in 1945. The business community was present at the historic San Francisco founders' meeting through the International Chamber of Commerce (ICC), a global business association that

had long embraced multilateralism and the promotion of trade and investment. At that time, there was a prevailing policy consensus that trade and investment were prerequisites to political and social freedoms, as well as bridges connecting common interests across national boundaries. Trade was seen as a vehicle for generating shared prosperity, interdependence and peace.

However, there was little time to translate the policy consensus of the founding years into institutional structures and operational modalities. With the onset of the Cold War, the Organization became a prisoner of conflicting ideologies, and had to adopt a neutral position on the efficiency of markets. This situation produced a normative quagmire and conditioned many of the UN's operational activities. The ideals of reconstruction and development were replaced with harsh ideological realities and colorful but wasteful debates. During the 1960s and 1970s, in the wake of decolonization, a growing number of developing countries urged for a New International Economic Order.

However, the relationship between the business community and the UN continued to deteriorate and businesses adopted an antagonistic attitude towards an international body, which, in their view, had little practical relevance. The creation of the UN Center on Transnational Corporations, as well as intergovernmental efforts to establish a Code of Conduct for Transnational Corporations, fueled further suspicion and contributed to an almost complete alienation of the business community.

The heated political debates of the 1970s and 1980s came to an end with the fall of the Berlin Wall in late 1989. By then, business had instinctively eschewed the Organization. But when the UN General Assembly placed the Code of Conduct for Transnational Corporations into the "deep freeze" in 1992, it began to dismantle the paralysis of conflicting ideologies and seemed to make possible a fresh start. Several years would pass, however, before the Organization and business would see a true rapprochement.

The turning point came with the election of Secretary-General Kofi Annan in December 1996. At that time, the case for approaching business was overwhelming. Market liberalization, technological change and the rapid growth of foreign direct investment and trade during the 1990s all under-

scored the central role of markets in tackling poverty. For the UN, the challenge was to find incentives that would attract the business community's attention while convincing its technocrats of the institutional changes needed for an effective UN/business relationship.

The leadership and pragmatism of Kofi Annan and his familiarity with business (he is the first Secretary-General with a business management degree) were instrumental in meeting these challenges. The Secretary-General supported efforts to prove that a strong UN was good for business in a world of growing interdependencies. A new institutional focus examined how the Organization was helping to stabilize markets and reduce transaction costs (for example, the Organization's contribution to setting technical standards).<sup>4</sup> Similar efforts were made to explain the benefits of the Organization's work for the environment and economic development, and its contribution to fostering mutually reinforcing peace and prosperity. Finally, the case was made that the Organization itself had changed, that confrontation had given way to cooperation, and that UN agencies were now ready to cultivate partnerships.

At the core of this renewal lay the vital understanding that markets by themselves were not an ideology, but rather a tool in the hands of societies. This view placed Kofi Annan above ideological debates and allowed him to focus on practical, real-world changes. He delivered many speeches on these issues, especially during his first term as Secretary-General.<sup>5</sup> Meetings were organized with the ICC and joint statements were issued in 1998 and 1999 to herald a new era of cooperation.<sup>6</sup> The message was heard, at least at the level of collective business interests. Global business associations such as the ICC and the International Organization of Employers (IOE) began to view the UN as an important participant in the globalization debate and acknowledged its constructive contribution.

The Compact was, in many ways, a logical extension of these developments. The emergence of the anti-globalization movement ahead of the 1999 World Trade Organization (WTO) meeting and the Asian Financial Crisis of the late 1990s provided the background for the idea of the Compact. The insights that global markets must be embedded in a social consensus of shared values, that markets need an underpinning of laws and

rules that transcend the imperative of economic efficiency, and that liberalization, itself the outcome of deliberate policy choices, must have social legitimacy to be sustainable over time all provided useful points of reference. And so long as governments remained local while markets went global, there was a real gap in global governance, which, if left unattended, could be exploited by narrow interests at the expense of many. The idea that the UN could assert itself as a stabilizing force, while placing emphasis on market inclusion, seemed both fitting with the mission of the Organization and timely in light of the ongoing lack of leadership around trade, business and social issues.

These macro arguments gained further momentum as social priorities became, once again, a lightning rod in trade negotiations. The world was witnessing changing perceptions about the role of business in society, and companies were under increasing pressure to adopt proactive social and environmental policies to maintain their license to operate. In this context, the universal legitimacy of the Global Compact principles provided the UN with an institutional advantage in dealing with the burgeoning debate around corporate social responsibility.

### **Voluntarism versus regulation – unnecessary dichotomy**

During preparatory meetings with business, labor organizations and civil society organizations ahead of the launch of the Compact in July 2000, it became clear that a major issue of contention was the voluntary nature of the initiative. On the one hand, business representatives left no doubt that they would only engage with the UN on a voluntary basis. The concepts of "Learning", "Dialogue" and "Partnership Projects" were accepted, provided that real value would be added in the already crowded field of voluntary initiatives. Global labor unions shared the view that the Compact could add value by promoting social dialogue at the global level, and by complementing efforts to establish effective national laws. On the other hand, participating civil society organizations, especially those not participating

in the Compact, sought regulation and external monitoring. These organizations argued that, due to the absence of external monitoring and regulatory enforcement, the Compact was inadequate at best and, at worst, a “blue washing” mechanism for companies.

Despite numerous explanations of the nature of the initiative and its experimental focus on learning and dialogue, critics quickly embraced the argument that the Compact was inadequate because of its lack of enforcement mechanisms. The Compact was simply not what some wanted it to be, and explanations to the contrary were ignored. In recent years, a growing number of civil society organizations have accepted the idea that the Compact is not about monitoring and measurement, and that engagement through learning, dialogue and concrete actions could complement efforts to improve corporate social and environmental performance. Nevertheless, the question of voluntarism versus regulation has remained one of the most contentious issues.

Interestingly, the arguments for and against regulation were somewhat irrelevant in the evolution of the Compact. The initiative was, from its inception, an experiment in cooperation based on market mechanisms that would allow the catalytic effects of critical masses, collective action, transparency and front-runner behavior to set examples and ultimately create behavioral norms. While the viability of this approach was and remains far from certain, its distinct and complementary nature vis-à-vis conventional regulatory approaches was never in question.

Nevertheless, criticism from civil society organizations has been instrumental in fostering the formation of governance mechanisms that protect the integrity of the initiative and clarify its purpose as a platform for dialogue, learning and action. They have helped to shape the Compact, not as a membership program that conveys recognition, but rather as an initiative with engagement mechanisms that generate concrete actions, systemic change and convergence around universal principles.

The issues of free riding and the difficulty of defining “good practices” posed major conceptual and operational challenges. Initial models of social vetting based on annual submissions by companies on the implementation of the principles proved impractical, at least in the short run. First, the value

of codified information for social vetting or benchmarking is very limited when it comes to generic cross-sectoral performance indicators. More often than not, such information is biased in favor of strategic assumptions regarding its use and impact, and hence lacks objectivity. Second, examples need to be contextualized to carry analytical meaning beyond the narrow realm of the story itself. Contextualization, however, presupposes a very large number of cluster examples and the availability of robust analytical capacities. Third, without performance indicators cutting across all industries and relevant to all companies from all countries, it would not be possible to derive any meaningful comparisons. Finally, the wide variety of languages used around the world and the complexity of assembling comparable information added processing barriers of great magnitude. For these reasons, the initial model of defining good practices through a centralized social vetting process of large numbers of business examples had to be abandoned.

While the idea of identifying good practices and building a dynamic learning bank was still valid, important adjustments had to be made and new strategies had to be employed. First, deliberate efforts were made to decentralize activities, align the Compact with other competent institutions, and to promote tools and training materials. In addition, a “performance model” was developed to provide generic guidance on how to implement the principles. Finally, the concept of “Communication on Progress” was introduced as a new strategy whereby companies were asked to report on the implementation of the Compact’s principles in their own annual reports or other prominent public documents. Supported by a “guidance note” to foster the coherence of approaches, the publication of these reports on progress would henceforth be done in a public manner (presented on the Global Compact website as of early 2004). A maximum degree of transparency would thus be achieved, while freeing the Global Compact Office from the impossible mission of providing assurance in a centralized fashion. This approach would also tackle the issue of free-riding, as the Global Compact Office would in the future be in a position to indicate on its website which companies did not communicate progress.

Criticism from NGOs also fuelled efforts to build additional mechanisms to protect the integrity of the

Compact, beyond the original social vetting process and the new public reporting policy. Practical procedures have been developed to deal with gross violations of the principles by individual participants. These procedures include delisting companies from the website, referral to dispute resolution mechanisms of other agencies such as the ILO, and on-the-ground efforts that employ capacity building and dialogue to find solutions. In addition, the Global Compact Office initiated the formulation of the UN Guidelines on Cooperation between the UN and the Business Community that Kofi Annan introduced to all UN organizations in June 2000.<sup>7</sup> These guidelines have inspired many UN agencies to develop more specific templates in line with their missions and mandates. They contain strict rules on the use of the logo and lay out basic parameters for engagement, supporting experimentation while safeguarding the integrity of the Organization.

Yet, despite the progress made, the credibility of the Compact as a voluntary initiative remains contentious. The belief is still deeply rooted in the development community that initiatives can only be effective at improving the social and environmental performance of private enterprises through the use of intense monitoring. While one may argue that this critique does not apply to the Compact so long as it does not convey recognition, it nevertheless highlights the complex questions and challenges that face the Compact as a voluntary initiative.

First, from an efficiency perspective, the real question appears not to be whether regulation or voluntarism is superior, but rather which approach produces the greatest impact and under what conditions. For the Compact, the issue of what kind of impact is produced is central not only to the viability of its engagement mechanisms (Learning, Dialogue and Projects), but also to the justification of its very existence. Unfortunately, comparative studies are in short supply, due in part to the complexity of measuring behavioral change in large organizations. In addition, no systematic effort has been made to evaluate the net impact of the Compact's activities due to the high costs of gathering and evaluating information at very different levels of aggregation. There is, however, already much anecdotal evidence that this voluntary initiative is producing systemic changes. In-depth case studies of individual companies, available on the Compact website, document

how the principles of the Compact are becoming elements of corporations' strategies and day-to-day practices. In addition, several large collective initiatives have generated projects that bring real benefits for people. Finally, dozens of local Global Compact networks have mushroomed all over the world, imitating the Compact's engagement functions and producing many positive results for workers, communities and the environment.

Another challenging question is whether the UN would have produced more results had it established the Global Compact as a regulatory instrument? Even if this question cannot be answered with certainty, many indicators suggest that a regulatory approach would not have been fruitful. First, the UN's attempt to regulate transnational companies through its Code of Conduct produced 20 years of debate and negotiations, but yielded no results. Second, any observer of international relations would agree that, in the current political climate, it would be impossible for the UN to gather sufficient political support for a regulatory approach. In addition, even if negotiations on a regulatory approach had been initiated, it would have taken years to produce results, and, in all likelihood, would have reflected the lowest common denominator of the UN's 191 Member States. The rapid evolution of the Compact stands in stark contrast to the cumbersome task of establishing regulation, and highlights the advantage of voluntary initiatives' flexibility. Finally, it could be argued that a regulatory approach would not have enabled most of the activities that the Compact has engaged in thus far. Ultimately, history will be the judge, and in many ways, the current discussions of the Draft Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights will offer a real-time case study on the potential of a regulatory approach at the global level.<sup>8</sup>

The third issue facing the Compact as a voluntary initiative is its role relative to the current abundance of approaches backed by regulation. The OECD Guidelines for Multinational Enterprises, for example, are backed by governments and offer many entry points.<sup>9</sup> Yet, in some of the most important economies of the world, the Guidelines are barely known or applied. Similarly, although the ILO has produced nearly 200 conventions, a superficial review of ratifications and implementation reveals the

need to improve the effectiveness of these regulations. It is in this context that the Global Compact has been positioned as a complementary tool to explore effective ways of implementing existing norms legitimized by the international community. The real challenge is not designing new regulations, but finding ways to make existing ones effective. The catchword is implementation.

The complementarity of regulatory and voluntary approaches is an important assumption underlying the Compact. Assuming that the motives for change respond to both positive and negative incentives, it could be argued that a balance between regulatory and voluntary approaches is almost indispensable to sustain healthy societies. Regulation usually prescribes what should not be done and defines the minimum standard below which actors are penalized. However, while such standards are indispensable, they merely induce compliance regimes that aim at cost and risk minimization, and fail to provide incentives to stimulate innovation and positive change. This is where a voluntary initiative, such as the Compact, can make a unique and complementary contribution to regulation-backed initiatives.

A final issue facing the Compact is the lack of understanding of the nature of voluntary initiatives, both in terms of their underlying motivation and their relationships with public authority. With respect to motives, corporate activities exceeding the requirements of the law are often driven by market necessities. To the extent that there is a business case for social and environmental responsibility, such actions are hardly voluntary, but rather they are part of corporate competitive strategy. Earning a license to operate through dialogue; improving productivity through decent workplace conditions; protecting reputation and minimizing risks through social and environmental commitments – all may be micro-economic imperatives essential for corporate survival.

In their relationship with public authority, voluntary initiatives are often seen as the emergence of private authority in global governance, reflecting the diminishing capacity of governments to regulate business. Accordingly, arguments are advanced for more government intervention to curtail the power of the private sector. However, this argument fails to recognize that voluntary initiatives are based on a

deliberate policy consensus and that they can only thrive with the support of governments, explicit or implicit. In the case of the Compact, governments are intimately involved, by providing policy space for the initiative within the intergovernmental framework of the UN and by offering funding and other means of direct support. The Compact, like many other national voluntary initiatives, is thus, in essence, a mix of public and private authority whose legitimacy is neither mandated nor assured. Governments hold the key – they enable the initiative – but they can also withdraw support and instantly bring the experiment to an end, or at least alter its orientation.

The Compact has a peculiar and ambiguous design. It promotes voluntarism but is backed by governments and the universal legitimacy of its principles. It is complementary to existing normative frameworks, but does not focus on legal interpretations: it seeks to find practical ways of advancing human rights, social and environmental priorities. From its inception, it was clear that the idea of underpinning global markets with universal principles would require substantial experimentation. No simple answer existed as to *how* the Compact could significantly contribute to “making globalization work for all of humanity.”

### **The space for innovation at the United Nations**

The UN is a bureaucratic and hierarchical organization comprised of 191 diverse Member States. The operational infrastructure of the Organization was created in 1945, based on the administrative bureaucracies of colonial powers. It was thus designed to put a premium on compliance with cumbersome reporting mechanisms and budgetary rules, with little incentive for efficiency and real-world changes. The role of the UN Secretariat is to implement the decisions, resolutions and agreements of Member States, who exercise strict oversight and perpetually struggle with one another for more control and political advantages, real or perceived. Successive waves of reforms were implemented to change the nature of the Organization, but it remains, above all, a hierarchical bureaucracy poorly equipped to facilitate

and support new initiatives. The Organization is hardly a habitat of innovation.

Yet, the story of the early days of the Compact is one of true innovation, utilizing the Organization's international legitimacy, moral authority and tremendous convening power while avoiding the downsides of bureaucracy. As an institutional experiment in network building that challenged the hierarchical boundaries of the Organization, the Compact provoked suspicion among governments of Member States. Clearly, the experiment survived this political gauntlet only because it was an initiative of the UN Secretary-General. His personal involvement and authority as chief administrator of the Organization shielded the Compact from the rigidities of the bureaucracy and the political suspicions of many governments.

Nevertheless, building the infrastructure for the Compact's operations proved extremely challenging. The creation of a Global Compact Office within the UN system was controversial, both within the Organization and among Member States' government, who felt that the Compact was not sufficiently sanctioned. The Compact managed to overcome these obstacles and to locate its operations in the executive office of the Secretary-General by creating an effective interagency network of five UN agencies – the Office of the High Commissioner for Human Rights (OHCHR), the International Labor Organization (ILO), the UN Environment Programme (UNEP) and the UN Development Programme (UNDP). Later, the UN Industrial Development Organization (UNIDO) joined as one of the “core agencies,” and many other UN organizations were affiliated on an ad hoc basis.

The experience of this early formative period produced interesting observations. First, collaboration among UN agencies can no longer be mandated by hierarchical order, but rather must be motivated by shared incentives. In the case of the Compact, all agencies involved had something to gain since the aggregation of human rights, labor and environmental dimensions was much greater than the sum of its parts. For the ILO, both the inclusion of environmental issues and the ability to work directly with companies was an important addition of value. OHCHR benefited from UNEP's and ILO's practical experience on how best to engage business. UNEP benefited from the inclusion of social issues,

fulfilling a long signaled need to go beyond a strictly environmental realm when dealing with business. Lastly, UNDP's comprehensive field-level representation provided the Compact with the operational capacity to be local.

Another insight from the Compact's early development was that tensions between agencies were healthy, spurring a constant search for compromise and improvement. For example, one of the most challenging issues for the agencies was the relative importance of principles versus concrete actions. This challenge has led to a sophisticated interpretation of the idealized sequence of good corporate citizenship – commitment to the principles must precede involvement in partnership projects on the ground.

This collaborative experience among UN agencies also showed that a tremendous pool of highly motivated and skilled individuals in UN agencies were eager to become change agents within their respective organizations. A core team, composed of Hans Hofmeijer and Michael Urminsky of the ILO, Scott Jerbi of the OHCHR, Jacqueline Aloisi de Larderel and Cornis van der Lugt of UNEP, and Sirkka Korpela and Casper Sonesen of UNDP have often acted for the Compact out of their own conviction and motivation, influencing institutional change in many ways. This was also true of other UN agencies, where a large reservoir of young professionals, eager to experiment with new approaches, was driving institutional change from the bottom-up. The story of the Compact shows that empowering these people, freeing them from unnecessary bureaucratic control, and giving them more recognition would surely be the most effective way of renewing the Organization from within.

Another key aspect in the formation of the Compact was the role of the UN Member States. Several ambassadors to the United Nations, from countries such as the U.K., Sweden, Norway and Germany, have offered practical support from the very moment Kofi Annan delivered the speech at the World Economic Forum. Many of them took a very personal interest in the idea and saw in the Compact a way of bringing important issues back within the Organization's jurisdiction and reducing the antagonism between business and society. These governments also provided valuable financial support to the Global Compact Office.

Developing countries were initially suspicious that the Compact was a disguised form of protectionism, introducing social conditions through the back door of the realm of economic transactions. Efforts by former U.S. President William Clinton to include a social dimension in multilateral trade negotiations at the Seattle WTO meeting in November 1999 fueled such suspicions. In response, the Group of 77, the political platform of developing countries at the UN, called for an intergovernmental oversight of the Compact in their Ministerial Declaration of 2000. It took major efforts by European governments to avoid institutionalization of the Compact, and to negotiate a General Assembly resolution entitled “Towards Global Partnership,”<sup>10</sup> which secures a mandate for the Secretariat to continue working on the Compact.

At the same time, the Global Compact Office undertook major outreach efforts in key developing countries such as China, India, Brazil, and South Africa, where business executives welcomed the initiative as a non-threatening framework for modernization and access to the global economy. As this occurred, political suspicion was gradually replaced with cautious support. Indeed, business leaders from developing countries have embraced human rights, labor and environmental principles even in situations where their respective governments viewed them as Western impositions and used them as political bargaining chips. The pragmatic business community understood that adopting these principles was the key to climbing the ladder of value addition as a supplier to large companies or as an exporter to major consumer markets. In addition, as competition for foreign direct investment intensified, politicians increasingly discovered that social and environmental issues influenced the decision making of potential investors.

Convincing developing countries that the Compact’s goal was not to impose social or environmental conditionalities through the business community allowed the Compact to become truly global. Today, more than 500 participants are from developing countries, and more than half of the functioning local networks of the Compact are located in the developing world. This globalization of the Compact, by broadening the range of needs of its participants, has contributed to shaping the nature of the initiative. The demand for basic

information in many different languages, the desire to foster more business-friendly environments through dialogue, and the call for local networks to cultivate inter-organizational learning have had a significant influence on the nature of the initiative.

Despite its widespread acceptance and the fact that the Compact has overcome some of the suspicion that typically accompanied previous efforts to elevate social issues in economic trans-border activities, important underlying issues remain unresolved. The politicization of social and environmental issues as a convenient protectionist tool for short-sighted politicians, or as a tool to divide the world along cultural fault lines, may resurface in the future and threaten the viability of the Compact. To avoid situations in which these issues fall victim to political arguments – such as the “race to the bottom” or “imposition of Western Values” – the Global Compact Office has shared with developing countries’ representatives the idea of differentiated responsibilities, as developed by trade economist Jagdish Bhagwati.<sup>11</sup> According to this notion, companies from high-standard countries should behave abroad as they do at home. Differentiating responsibility according to capability would ensure that high standards are not watered down and low levels of development are not penalized. It would help solve the problem that higher standards imposed on domestic companies in developing countries could unintentionally punish the poor, denying them comparative advantages and thus the opportunity to improve their condition.

### **What will the future bring?**

The Compact has grown rapidly. Mechanisms of engagement have been designed and are today fairly robust. Learning, Dialogue and Projects are delivering results and the idea of the Compact continues to spread around the globe. However, it remains far from certain whether the principles of the Compact will become an integral part of business activities everywhere.

First, factors both internal to the initiative and related to its surrounding environment create many



uncertainties. Internally, it is critical that the UN continues to provide the space for innovation necessary for the Compact to grow. There is a risk, however, that control reflexes of the bureaucracy will suffocate the initiative by hindering the creation and maintenance of horizontal networks. Externally, the success of the initiative depends on whether the business community will continue to invest time and effort into the idea of a global framework for good corporate citizenship. Success also depends on the continued support and cooperation from civil society and labor organizations. Finally, there is a risk that the global economy will turn unilateral and thus render the Compact meaningless or that governments will step in and change the very nature of the initiative.

Second, the relationship between the Compact and the global economic and political situation exposes it directly to broader developments that are beyond its control. So far, these developments have added to the momentum of the initiative. The debacle in Seattle brought home the message that liberalization and social issues cannot be separated, and that global production systems are vulnerable to public perceptions. Additionally, corporate scandals in the U.S. and elsewhere have highlighted the importance of a principle-based approach as a necessary complement to regulation; that is, if trust and confidence are to be restored. Finally, terrorist attacks and unilateral military intervention have reminded the business world that the construct of an open economy can easily be dismantled, and that renewed efforts of dialogue and cooperation are important to safeguard multilateralism.

But even if external factors continue to favor the evolution of the Compact, if participants remain engaged in a cooperative manner, and if the UN continues to provide the space for innovation, questions remain concerning the ultimate shape of the initiative. The scope of possible scenarios for the Compact's future is considerable. However, several broad directions can already be identified:

(1) Diffusion and internalization of the principles: Given that there are by some estimates, over 60,000 transnational companies, outreach could become a perpetual challenge. Equally daunting

is how to improve the process by which companies make the principles part of strategy and operations. The demand for tools, benchmarks, information exchange and other micro-economic support measures is endless. And, despite a successful strategy of convergence by which other competent organizations embrace the Compact, a focus on micro issues could become an all-absorbing undertaking.

- (2) Improving accountability and transparency: While the Compact is still young and outreach remains the priority, there is an increasing need to protect the integrity of the initiative against undermining action of free riders. Gradual improvement of accountability and transparency measures as the Compact continues to grow will become increasingly important to sustain the initiative's momentum.
- (3) Collaborative solution finding: The goal of making the global economy more stable and inclusive cannot be attained by the diffusion and internalization of the principles alone. Business, as an integral part of society, can only tackle this challenge if other stakeholders – e.g., labor, civil society and above all governments – are willing to help. Collaborative solution finding may prove an effective approach to bring about positive change, and the Compact could in the future scale up and further develop dialogue functions involving multiple stakeholder groups.
- (4) Global and local governance issues: The goal of making the global economy more inclusive can only be attained if the conditions under which companies operating in the developing world improve. At the global level, this would mean working towards more favorable trade and investment conditions. At the local level, it would mean tackling the structural deficiencies that hinder business growth such as corruption, weak institutions and public health crises. Developing a more effective method of improving government-governance, both at the global and the local levels, would require very different approaches as developed under the scenarios above.
- (5) Business and society issues in the North and South: Priorities vary greatly. In rich countries, there is a premium on contributing to a more

beneficial relationship between business and society by way of dialogue. Conversely, in many developing countries, inadequate incentives for business operations, weak government institutions and broader societal needs tend to be the overriding issues. Striking the right balance in responding to different needs will become increasingly challenging as the number of participants continues to grow.

- (6) Financial Markets: Besides winning over more companies and building credibility for engagement in an effective platform for dialogue, financial markets are paramount in defining the future success of the Compact. If financial markets can be encouraged in their self-enlightened interests to pay a premium for proactive policies in the areas of human rights, labor rights, environmental protection and anti-corruption as part of a risk mitigation strategy, the business case for good corporate citizenship will be significantly strengthened. The success of the Compact ultimately depends on the truism that doing the right thing makes business sense, which, after all, is only true if financial markets are able to put a price tag on good behavior.

These are just some of the possible substantive orientations that could shape the nature of the initiative in the future. They are not exhaustive, nor mutually exclusive. But clearly, the Compact will need to choose and focus on what is achievable.

In order to build the next performance level for the Compact, it appears essential to focus on the core characteristics that have defined the initiative from the beginning. The central role of the Compact is to promote the creation of public goods by corporations through a decentralized network of diverse participants, acting independently and ultimately creating critical mass toward a more inclusive global economy.

The Compact also defines and formalizes a standard of what constitutes global corporate citizenship. It is a public good, a new type of universal and inspirational principle, somewhere between an international convention and an international standard. The Compact represents a formal attempt to encourage those who can make

a difference to do so. In this context, the role of the UN is fundamental as an organization recognized as legitimate by all parties.

Finally, the Compact is a pragmatic response to government-governance failures. From its inception, the initiative has embraced the dual goal of promoting the principles at the micro level and building credibility for engagement, while recognizing that significant improvements towards market inclusion can only be attained through broad-based collaborative efforts. Given that the Compact helps to address government-governance gaps and that governments continue to hold the key, it is now appropriate to call on them to open the doors and become a greater part of the collective solution.

## Notes

<sup>1</sup> Kell, G. and D. Levin: 2003, 'The Global Compact Network: An Historic Experiment in Learning and Action', *Business and Society Review* **108**(2) (Summer), 151–181; G. Kell. and J. Ruggie (1999) 'Global Markets and Social Legitimacy: The Case for the Global Compact', *Transnational Corporations* **8**(3) (December), 101–120.

<sup>2</sup> See <http://www.unglobalcompact.org>

<sup>3</sup> For extensive detail on this topic, see Tesner, S. and G. Kell: 2000, *The United Nations and Business: A Partnership Recovered* (New York: St. Martin's Press).

<sup>4</sup> Zacher, M.: 1999, *The United Nations and Global Commerce* (New York: United Nations Department of Public Information).

<sup>5</sup> The Secretary-General's address to the Chamber of Commerce of the United States of America (June 1999); The Secretary-General's address to Svenska Dagladet's Executive Club, Sweden (May 1999); The Secretary-General's address to the World Economic Forum: Davos, Switzerland (January 1997).

<sup>6</sup> Joint Statement on Common Interests by the Secretary-General and International Chamber of Commerce (February 1998); UN-ICC Meeting: Geneva (July 1999).

<sup>7</sup> See <http://www.un.org/partners/business/otherpages/guide>.

<sup>8</sup> Draft Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights, E/CN.4/Sub.2/2003/12 (2003).

<sup>9</sup> While voluntary for companies, the OECD Guide lines for Multinational Companies are binding for the governments involved.

<sup>10</sup> GA Resolution A/56/L.33; GA Report A/58/277.

<sup>11</sup> Bhagwati, J.: 1998, *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy* (London: The MIT Press) p. 53 ff.

*Global Compact,  
United Nations,  
S-1884,  
NY 10017,  
New York,  
U.S.A.  
E-mail: [kell@un.org](mailto:kell@un.org)*