



“TEN YEARS AFTER”

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Good morning, it is a great pleasure to be here. I could not think of a better venue to review and debate corporate responsibility (CR) and its economic and political context. Chatham House has long played a catalytic role in this realm, giving voice and opinion to new concepts and ideas.

Undoubtedly, in the past decade genuine advances have been made by companies and investors across the globe to better understand and address environmental, social and governance issues. However, during this same period, sentiments related to globalization and international trade appear to have come full circle. Based on the noises being made in many countries, it is reasonable to ask: Is it 2008 or 1998? Growing concerns over inequality, job losses and protecting industry cannot be ignored.

And so, I find it a particularly intriguing time to discuss the future of corporate responsibility. How do we reconcile the advances made in recent years through voluntary corporate change and government soft power, with the growing calls for restraint of trade and investment?

The United Nations-Corporate Responsibility Link

Indeed, it was the need to address the gaps and weaknesses in global governance that led the United Nations to start actively collaborating with the private sector in the late 1990's. From the Organization's founding days, commerce, trade and investment were understood to be critical to securing global development, human rights and peace. But, only in the post-Cold War era of rapid

global economic integration did it become politically feasible for the United Nations to engage with business.

By the late 1990's, the need for action was unmistakable. The gap between commercial advances and the relative neglect of human rights, social and environmental issues had provoked a backlash. Short-term profits and non-uniform standards were the norm as businesses ventured around the world. Companies were increasingly under fire for substandard conduct – often in relation to labour abuses, environmental degradation and corruption instances. In developed countries, job fears and national security concerns fed a rising discontent and call for protectionism. And in many ways, it appeared the rest of the world did not figure in the growth and opportunity associated with massive increases in international investment and trade.

Within the United Nations, a new way of thinking began to emerge. Traditionally, UN values – such as freedom, tolerance, dignity, social progress – had been used to forge a common understanding among nations and peoples through state-to-state relations. However, international law – with its conventions, declarations and agreements – was too often not being effectively implemented at the national level. Cynics even implied a negative correlation between the ratification of conventions and subsequent action on the ground.

And so, the idea of the Global Compact was born. If companies were willing to voluntarily embrace universal values, if they chose to act in a principled way wherever they did business – then the social legitimacy of open markets and the global economy could be strengthened. Maybe the growing backlash against free trade and multilateralism could be tempered by building environmental, social and governance pillars into business operations. Moreover, by projecting universally legitimized principles as a basis for action, a totally new way of diffusing international norms would be available – complementing what used to be a state-to-state affair.

The United Nations entered the corporate responsibility realm in 2000 by launching the Global Compact. The initiative asks companies around the world to voluntarily commit to internalizing principles in the areas of human rights, labour, environment and anti-corruption, and to enter into partnerships that help advance UN goals, such as the Millennium Development Goals. Since launching, the Global Compact has become the largest and most global corporate citizenship

initiative in the world with 5,000 signatories – 4,000 from business and 1,000 from civil society and other non-business groups. Participants are based in 120 countries. In many cases they have also joined together locally to develop country-level Global Compact networks, which can now be found in over 70 countries.

Corporate Responsibility in 2008

The corporate responsibility movement has grown extensively in the past decade. But can we say *what* difference it has made? Has it produced significant change?

There are, indeed, a number of very important developments and trends that signify real advances.

First, today CR is global. The search for the proper balance between market imperatives and societal expectations is not new. And while every market and society has its own past, its distinct legal and institutional characteristics, something extraordinary has happened. Starting in the 1970's and 1980's, important impulses came from the US and then UK – which subsequently became the premier platform for new ideas and innovations. Today, corporate responsibility is at home not only on the west coast of the United States or in the City of London, but equally in Shanghai, Cape Town, Delhi, São Paulo and countless other places, big and small. From Chile to China and South Africa to Sri Lanka, businesses and stakeholders are joining CR networks and entering into partnership initiatives. In short, CR has gone global.

Second, global integration has triggered convergence around values and principles. More interesting than global growth is that in an integrated world, corporations – irrespective of their own past and background – seem to converge around values and principles that the international community has long legitimized. Consider:

- The increase in number of companies that have human rights specific policies. While still far from common, this was practically unheard of ten years ago.
- Some of the most effective and comprehensive examples of corporate responsibility can now be found in emerging markets.
- The need for cooperation to fight collective challenges – such as corruption and climate change – has brought corporate competitors together in ways not previously imagined.
- The cooperation between NGOs and companies is unprecedented.

- And, across the world, business schools are incorporating CR into research and curriculum development.

Third, CR is filling governance voids. Corporate responsibility would hardly exist if all governments were to act in the best interest of their people. All too often, governments fail to or lack the capacity to provide for essential public goods, such as health, education and protection of the environment.

Business has adapted significantly to this dynamic – often finding pragmatic and collaborative approaches to filling voids in the areas where they operate. Today, issue networks are thriving and making a real difference. Companies are not only engaging in projects and donating resources on the ground, they are also developing practical tools to advance shared concerns and pressing for needed policy changes.

“Business statesmanship” today is not just about protecting intellectual property rights or shaping regulation for trade and investment. It is also about advocating solutions for issues such as good governance and climate change. Companies take these steps not simply out of humanitarian concern. By addressing aspects of the societal context that are lacking, business is strategically filling voids that could otherwise hamper its ability to operate, compete and thrive.

Fourth, the nature of enterprise risk and reward is changing. Global integration and value chains have changed the nature of enterprise risk. No longer can companies turn to and take refuge behind a single home government. A fundamental rethinking of how to evaluate exposure to environmental, social and governance risks is underway. The mainstream capital markets – including major institutional investors – have begun ground-breaking efforts to recalibrate their investment strategies and models. Indeed, a new term has entered the lexicon of finance: “ESG”, for environmental, social and governance issues. It recognizes the materiality of and the interplay between these issues – be they related to climate change, human rights or anti-corruption. This emerging dynamic was bolstered by Goldman Sachs research in 2007 which showed that addressing ESG issues is a necessary precondition for ensuring a company’s performance and long-term value.

The astounding growth of the UN Principles for Responsible Investment (PRI) since its launch in 2006 reflects this important trend. PRI invites large institutional investors – both asset owners and managers – to commit to a set of six principles designed to put ESG issues into the core of investment decision-making. The initiative has more than 300 signatories representing approximately \$13 trillion in assets.

Fifth, non-financial reporting is on the rise. Companies around the world are increasing efforts to publicly disclose ESG information. In 2005, the Global Compact instituted our Communication on Progress (COP) policy which requires participants to communicate annually on their actions to implement the ten principles. At the time, there were serious concerns that strict enforcement of the policy would contradict the voluntary nature of the initiative and lead to the deactivation of a majority of our business participants. Experience has proven otherwise.

Yes, over 900 companies have become inactive, but there has also been a burst in reporting thanks to concerted efforts and the development of training resources. Over 3,000 COPs reside in our database for public vetting. Work is now being done by many groups – including the Global Reporting Initiative, academic institutions, media and investors – to analyse and assess the content of such information.

In combination, these five developments provide evidence that a fundamental shift has occurred over the past decade. Not only has the concept of CR evolved and become a global phenomenon, but, incredibly, market drivers are starting to internalize signals that connect directly with the issues CR has long advocated. In short, today a company's ability to compete, gain trust and ensure long-term financial viability can more clearly be linked to issues of responsibility and public disclosure.

And in the past ten years, we *have* seen that a rise in corporate responsibility can help build market legitimacy at the micro and macro levels. It can enhance benefits and minimize negatives. Building principles into the marketplace is helping to support modernizing forces in many countries. Corporate responsibility is helping to accelerate the diffusion of international soft law. As hoped, it is providing opportunities for spreading the values and principles that the international community has long considered to be fundamental to peaceful cooperation and prosperity.

But can we assume that these promising developments will continue? Can we be optimistic that the business case for CR will be established more robustly? Ten years from now, will we be closer to achieving market sustainability and inclusion on a truly significant scale? Will educators ensure that the next generation of business leaders master the Global Compact as well as marketing? Will analysts apply ready models to assess ESG risks and opportunities? Will globalization be synonymous with a race to the top?

Globalization Remains Fragile

A glimpse at today's public policy sentiments suggests that globalization remains incredibly fragile. The public support required to sustain openness is waning in many important countries. National economic populism is on the rise. So is inequality. There are indeed dark clouds gathering on the horizon. The globalization debate is as fierce today as it was ten years ago – when the modern CR movement ignited.

Should we be alarmed by surveys, such as the one just completed by BBC World Service, which show that a majority of people believe that globalization is growing too quickly? What does it mean if economic populism undermines support for multilateral trade agreements?

The hard truth is that there is no blueprint for global economic integration and cooperation. Yes, the diffusion of technology and its wealth-creating effect is irreversible. However, the political counterpart to sustain globalization is not. Today, the rule-based multilateral trading system remains the only global component with some solid foundations. But even so, political will to conclude the Doha round does not appear to be gaining strength.

The creation of a global marketplace remains contested. It is an unfinished experiment. On the one hand, we know that the presence of business provides the best chance for growing and sustaining economies; that market expansion will be required to meet the MDGs; that hundreds of millions of people have been lifted out of poverty in recent decades – the most rapid poverty reduction in history – thanks to globalization; and that productivity has been spurred by international trade and investment. But, we also see that inequality is rising in developed and developing countries; that there are still 1 billion people living in dire circumstances.

History tells us that populism often favors exclusion instead of inclusion, division instead of cooperation. And as long as there are serious gaps in governance and opportunity, this will remain the case. These failures test the willingness of society to support open markets. These failures convince people to associate dilemmas with business expansion, to blame “outsourcing” for unemployment, to fear foreign ownership of capital.

Looking Ahead

What does this mean for the future of CR? And how should the CR movement respond?

I have no doubt that CR will fail to flourish if basic norms of non-discrimination in trade and investment are abandoned. The business case for CR cannot be adequately established in the absence of competitive and open markets. The market signals that business responsibility is starting to produce would be crowded out by policy distortions and interferences that cater to narrow interests.

Those of us who have been busy beating the drum of corporate responsibility will need to redouble our efforts over the next ten years to build on the many promising advances made so far. Simply put, much work remains to be done to lay the foundation for an age of global prosperity and peaceful cooperation. There are many important next steps for us to take:

First, CR must go much deeper and further. While the Global Compact counts some of the world’s largest companies among our 5,000 signatories, we know that there over 70,000 transnational companies and countless smaller businesses NOT engaged. New examples of human rights violations, worker exploitation and corruption are too often revealed. Companies devoid of responsible practices are still winning contracts and making profits. A key step will be for committed companies to spread responsible practices not just to their subsidiaries, but throughout their supply chain.

Second, it is essential to nurture the emerging link between responsible investment and CR. This is arguably the most promising way to more strongly establish the business case. More efforts need to be made on public disclosure of relevant information, and this information needs to be made more accessible for use by analysts, civil society and educators. For our part, the Global Compact will

strengthen the link with GRI, and I hope that together we will soon be able to offer a useful repository of ESG information so that market evaluations and perceptions will increasingly reward good performance and recognize implementation gaps.

Third, convergence must continue. It is now important to rally around globally-accepted frameworks, otherwise I fear that the CR movement will never be able to make a deep impact and will fizzle out. Governments can help to make this happen through their soft power capabilities. And I hope that those institutional players that actively work against convergence will soon abandon narrow institutional interests, recognizing that the stakes are too high to fall back into reactionary modes and tactics. Specifically, supporting the development of ISO 26000 as a practical tool for the implementing globally established instruments – such as the Global Compact and GRI – would go a long way to build much-needed CR capacities around the world.

Fourth, we must welcome efforts by new entrants to embrace CR, while also providing incentives that motivate front runners to keep pace and give direction. Balancing the needs of early starters and advanced performers does call for different incentives, but should be seen as contributing to one end goal: building inducements for continuous performance improvements with a truly global perspective. CR would fail if it were only about supporting national champions. It must be first and foremost about building a truly global marketplace.

Fifth, civil society must remain vigilant. While CR is now being brought to scale by professional service providers that are building on the work started by civil society, there remains an important role for civil society organizations. Over and above being a partner in implementation, their continued vigilance will be required to ensure that businesses resist the temptation to take easy escape routes. It is not enough for business to focus on specialized engagement opportunities while neglecting core issues that are also impacted by their operations. Indeed, it would be wrong to allow for “offsets” that serve to ignore other responsibilities. For CR to be credible and achieve full impact, it must be systematic and comprehensive – covering all relevant issue areas.

Civil society vigilance in relatively neglected areas, such as human rights and anti-corruption, is as important today as it was ten years ago. I hope civil society will not abandon its traditional watchdog role.

Sixth, the relationship between regulatory and voluntary approaches remains critical. While today there is much better understanding that the two must complement each other, there is still much confusion. The conditions under which complementarity best works are poorly understood. More research in this area is needed to produce policy-relevant guidance, and public policy makers will need to more fully explore the repertoire of soft power incentives available to them.

Finally, when it comes to specific issue areas and dilemma situations, fresh efforts need to be made to identify best solutions and scale them up. Using impact assessment tools more widely will help, but more needs to be done. This is true for partnerships to achieve the MDGs, coalitions to reduce corruption, and efforts to combat climate change, for example. We must encourage innovation and exploration. Illustrative examples of good performance are still important, but increasingly we need to find ways to better connect them with effective public policy making.

To conclude, I believe that we have a historic opportunity at hand. Indeed, our world is facing enormous challenges for which there are no easy answers. Serious imbalances between economic, political and social worlds necessitated the modern CR movement. This is still the case today. We must not lose sight of our goal: global markets must contribute to a world where all people can live in societies that are prosperous and peaceful.

In the past ten years, through corporate responsibility we have been able to make real advances to build environmental, social and governance pillars into globalization. But, today CR still serves as a stop-gap for the shortfalls in global governance. We must work to ensure that the global marketplace will induce all nations to fully incorporate universal values into their societies. Until that day comes, corporate responsibility will remain a vital solution.