

Corporate Social Responsibility and The United Nations Global Compact

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EXECUTIVE SUMMARY

Corporate Social Responsibility (CSR) has received growing attention during the last several decades. Its impact dramatically reached the top echelons of the United Nations when in 1999, UN Secretary-General Kofi Annan proposed The Global Compact at the World Economic Forum in Davos, Switzerland. The Global Compact has grown to encompass over 6,000 business participants. In addition, many government entities and civil society organizations have joined so that the total number of organizational participants is now nearly 8,000. This paper discusses the strengths and limitations of The Global Compact.

Keywords: Corporate Social Responsibility, United Nations, Global Governance, Global Compact

INTRODUCTION

The priority of The Global Compact to Secretary General Kofi Annan among his many duties was emphasized at an Adelphi University reception in 2005 honoring Ambassador Pierre Schori before his departure on a UN Mission to the Ivory Coast. The Secretary General was in attendance for approximately thirty minutes and spoke with many people. When one of co-authors of this paper mentioned that he taught International Business in an MBA program, Kofi Annan then launched into several minutes of discussion about The Global Compact and why he believed that business students should know about its significance. This spontaneous conversation demonstrated the importance of the United Nations Global Compact to Kofi Annan and it may become one of his most important legacies.

UNITED NATIONS GLOBAL COMPACT PRINCIPLES

In summary, The Global Compact is a UN initiative designed to encourage companies to act as socially responsible members of the international community by committing to the following ten principles (United Nations, 2010):

Human Rights

- 1) Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2) Make sure that they are not complicit in human rights abuses.

Labor Standard

- 3) Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4) The elimination of all forms of forced and compulsory labor;
- 5) The effective abolition of child labor; and
- 6) The elimination of discrimination in respect of employment and occupation.

Environment

- 7) Businesses should support a precautionary approach to environmental challenges;
- 8) Undertake initiative to promote greater environment responsibility; and
- 9) Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- 10) Businesses should work against corruption in all its forms, including extortion and bribery.

The United Nations Global Compact process also includes an annual Communication on Progress (COP) report. Those who do not meet the COP deadline will be marked “non-communicating” on the Global Compact website. If the non-disclosure continues for an additional year, the companies will be delisted from the Compact; however, these companies may reapply.

CORPORATE SOCIAL RESPONSIBILITY AND STAKEHOLDERS

An important dimension of Corporate Social Responsibility (CSR) involves “a shift of focus from the maximization of shareholder value to the satisfaction of the interests of a broader set of stakeholders” (Becchetti, 2010). These stakeholders are frequently divided into two categories. Primary stakeholders are directly related to the business such as stockholders, customers, suppliers, and employees. Secondary stakeholders frequently include governments at various levels, charities, community organizations, and in broader definitions, activist groups and the media (Davis and Frederick, 1984). It can be argued that this comprehensive view of stakeholders would include the United Nations which represents 191 countries encompassing almost all human beings on earth. CSR advocates believe that contemporary business must go beyond profit maximization and fulfill the aspirations of a wide range of stakeholders. A classic expression of this is by Davis and Frederick (1984) who have written, “In the long-run, the greatness of the business as an institution may depend as much on its heart as on its brain.”

To facilitate interaction among business and its stakeholders, the United Nations Global Compact includes civil society organizations (CSO’s) often also referred to as non-governmental organizations (NGO’s), academic institutions, business associations, labor unions and various governmental entities. These non-business partners are not required to submit COPs, but are encouraged to contribute their knowledge and expertise in interacting with business participants and to educate the public about the benefits of CSR. In 2010, there were over 8,000 participants in The Global Compact, and 1,500 individuals attended the tenth Anniversary conference in New York in June 2010 (UN, 2010). The Global Compact Office maintains a decentralized network structure and strives to limit bureaucratic controls to promote communication and partnership. It also employs the help of the other UN agencies to ensure success in its objective. For example, The Global Compact Office works with UN Development Program (UNDP) departments to maintain a presence in local areas.

With over 6,000 business participants, the Compact is “the largest voluntary corporate citizenship network of its kind,” and this gives it “a strong local presence than other similar initiatives in many countries” (McKinsey 2004; pp. 9-10). Prior to the Compact, there was a lack of a strong influential body to promote CSR (Scherer, 2009). Nations have imposed some rules regarding CSR, but there is an absence of significant global governance. Supporters believe that the Compact is the first-step in managing global corporate social responsibility. During a Global Compact Counter-Summit in June 2004, pro-Compact attendees stated that the Compact has started a process of establishing international standards and laws that can govern multinational enterprises. It has helped increase awareness of human rights, fair labor practices, and environmental violations of corporations, especially those of multinational enterprises, and has expanded international awareness of important CSR principles. Also, because the Compact strongly promotes networking among corporations, government institutions, and civil society organizations, mutual learning is fostered across many stakeholders (McKinsey 2004).

Another benefit of The Global Compact is the strengthening of relationships between corporations and the United Nations. According to Fritsch (2008), the Compact “represents the beginning of a new relationship between business and the United Nations, a relationship which during previous decades had been determined by deep-seated mistrust and antagonism.” UN officials are beginning to gain the support of local business communities, which will enable the UN to

more easily recruit business leaders to help achieve present and future UN goals. Empirical support for this comes from a study by McKinsey & Company requested by the UN to assess the Global Compact. The McKinsey report noted that more than 75% of the 2004 survey respondents said that the Compact has helped their organization create an effective relationship with the UN and vice versa. For example, the executives of an African company were surprised at how involved the local UNDP office was in supporting their company's project plan. Relationships between the UN and NGOs have also improved. The report showed that more than 50% of the NGO survey respondents said that since joining the Compact, they have become more engaged in helping companies tackle social issues. Some NGOs have even incorporated the Compact's principles into their organization's objectives and quality measurements. For instance, the Danish Institute for Human Rights helped the Compact produce kits for companies to implement the Compact's human rights principles. This improves not only relationships between the UN and NGOs, but also strengthens interactions between NGOs and businesses (McKinsey, 2004). An example of the potential contribution of the Global Compact to business is an official United Nations Global Compact Good Practice Note, "How Business Can Encourage Governments to Fulfill their Human Rights Obligations," describing in detail the process of how business can help implement Human Rights taking into consideration national sovereignty and diplomatic approaches (Black & Gula, 2010)

As supporters of CSR argue, CSR initiatives can improve financial performance and internal firm value by enhancing a firm's reputation through positive marketing (Lane & Piercy 2009; Luo & Bhattacharya 2009; Orlitzky et.al, 2003). Membership in the Global Compact acts as a market signal, indicating a visible, public commitment. This helps companies differentiate against competitors. Other positive results from the McKinsey report show that half of the company survey respondents have changed their internal control procedures since joining the Compact to adhere to the Compact's principles. In addition, 60% report that the Compact facilitated company reforms addressing social issues (McKinsey, 2004).

CRITICISMS OF THE UNITED NATIONS GLOBAL COMPACT

In spite of the numerous positive impacts of The Global Compact, several criticisms have also been made. One over-riding criticism is the methodological weakness of self-reporting by companies in their annual Communication on Progress (COP). Related to this self-reporting is that the COPs usually emphasize positive results, particularly in discussing specific projects, but rarely identify weaknesses. The Global Policy Forum (2004), which monitors the work of the UN, has argued that The Global Compact has led to small positive changes, but not far-reaching organizational impact. Moreover, more than half of the McKinsey company survey respondents reported that the Compact had no significant impact on their company (McKinsey, 2004).

It is also argued that The Global Compact is marked by inconsistent participation and relatively weak commitment by some companies. Perhaps reflecting this aspect, The Global Compact Office began in January, 2008 to delist companies that failed to meet the Compact's mandatory annual reporting requirement, delisting 394 participants, primarily smaller companies. As of January 2010, the total number of businesses removed stands at 1,840, with 859 companies delisted just between October 2009 and January 2010 (UN, 2010). Past experience has shown that only a handful of delisted companies are likely to sign up to the Compact again. In fact, only 9 of the 630 companies that were delisted in June 2008 re-entered the Compact. The lowest compliance levels are companies based in China and the Dominican Republic, followed by the United States and Turkey. Those with high levels of compliance are Germany, the U.K., and South Korea. Based on this history, Barkemeyer & Napolitano (2009) projected that four out of five small multinational enterprises are expected to fail to comply with the Compact's reporting requirements. These reports indicate that there is a troubling lack of dedication among Compact members and that most of the delisted companies do not believe that the Compact is even worth re-joining.

In addition, because the Compact is a voluntary effort, there is minimal accountability for company members. In a letter to the UN Deputy Secretary-General, Amnesty International raised a concern that seems to be a recurring issue. It stated that the Compact's "accountability mechanisms have weakened over time" and that the Compact should "ensure some form of accountability to the principles" (Amnesty International, 2003). The Compact has no legal sanctions for companies who do not adhere to Compact principles. Barkemeyer & Napolitano (2009) argue that because the UN has limited authority, companies should be accountable to governments.

The letter written by Amnesty International also brought up the ambiguous criteria that constitute breach of the

Compact's principles. There are no clear criteria of what constitutes a violation of rights, nor is there an acceptable evaluation to determine if the principles are being followed. Moreover, non-submission of COP reports has led to a public delisting, while those that were delisted for principles violation were removed quietly. Eligibility requirements for membership are also unclear. Zammit (2003) revealed that testing for membership "went only as far as ensuring that applicants did not produce landmines or weapons." This absence of clear criteria, coupled with weak commitment and participation, further shows that the Compact can be viewed as a marketing device that companies employ to spruce up their reputations without any significant proof of action.

Perhaps a reason for the weak governance of the Compact is the fact that the UN's resources, especially those allocated to The Global Compact Office, are limited. This was another issue that Amnesty International had with the Compact, saying that "the small secretariat can only do so much," and so it pushes for the "argument that the Global Compact itself may not be the place to enforce compliance" (Amnesty International, 2003). Also, during the counter-summit in June 2004, James Paul of the Global Policy Forum, noted that many of the large corporations involved in the Compact "have annual incomes more than a hundred times larger than the UN's" and so do some national governments (Global Policy Forum, 2004). He added that the UN's annual budget of \$1.4 billion is even smaller than that of the Tokyo fire department. This suggests that to some extent, the UN could be subject to the whims of the governments that sustain a large portion of the UN's budget. Applying the same logic to companies suggests that business participants who have the resources to finance the projects have a stronger ability to shape the Compact's agenda (Bendell, 2004).

CONCLUSION

The United Nations Global Compact can be viewed as the initial steps of developing an international forum to monitor Corporate Social Responsibility. Civil society organizations, government institutions and corporations now have a venue to develop productive relationships, which prior to The Global Compact existed haphazardly. Moreover, Scherer and Palazzo (2009) argue that globalization has weakened the ability of national governments to regulate corporations. New ongoing public discourses involving corporate social responsibility need to be developed because "solutions for societal challenges are no longer limited to the political system but have become embedded in decentralized processes that include non-state actors such as NGOs and corporations." Corporations now have more interaction with various UN organizations, including several local networks in developing countries. The Global Compact with more resources could help companies improve Corporate Social Responsibility, especially in developing countries. Currently, the UN has very little money to fund The Global Compact, which affects the ability to actively review adherence to Compact principles. This problematic issue of compliance is accentuated because the United Nations has limited international ability to impose effective sanctions on business members who violate its principles other than delisting from the Compact. As a result, The Global Compact is currently a voluntary effort. Perhaps the major future compliance mechanism will be vigorous monitoring of corporate activities by Civil Society Organizations and the media.

Positive incentives to promote international Corporate Social Responsibility have also been suggested. For example, Amnesty International has proposed that UN procurement contracts be awarded to companies that follow Global Compact principles (Amnesty International, 2003). This would be a financial inducement to entice loyal members and would strengthen the Compact. But the average value of a typical UN contract is small, around \$20,000 and only about 2% are over \$1,000,000 (UN, 2003). Another positive incentive is organizational awards for Corporate Social Responsibility. In 2010, Corporate Responsibility Magazine designated Microsoft and Hewlett-Packard as the two top corporate citizens.

Over the next several decades, society may demand more Corporate Social Responsibility to help reduce world poverty and to sustain the natural environment. Participation in The Global Compact adds a strong international dimension to Corporate Social Responsibility as well as the opportunity for a wide range of societal stakeholders to participate in developing new multifaceted solutions to address the challenges of the 21st century.

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