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# “A *NECESSARY* SUPPLEMENT” – WHAT THE UNITED NATIONS GLOBAL COMPACT IS AND IS NOT

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## **"A Necessary Supplement"**

### **What the United Nations Global Compact Is and Is Not**

#### *Abstract*

The United Nations Global Compact is with currently over 6,000 voluntary participants the world's largest corporate citizenship initiative. Although having made much progress towards its goals, the Compact still faces a lot of criticism. This paper first analyzes three critical allegations often made against the Compact by looking at the academic and non-academic literature. (1) The Compact supports the capture of the UN by "big business". (2) Its ten principles are vague and thus hard to implement. (3) The Compact is not accountable due to an absence of verification mechanisms. This article discusses these three allegations and argues that they rest on a misunderstanding of (a) the nature of the Compact, as well as its mandate and (b) the goals it tries to achieve. From this discussion of what the Compact *is not*, the article then outlines a perspective that classifies the initiative as a necessary supplement to incomplete state and non-state regulatory approaches in order to illustrate what the Compact *is*. The article argues that critics neglect this important supplementary role of the Compact. This neglect leads to an underestimation of the Compact's true potential. Based on this discussion, the article looks at specific ways of improving the Compact and the challenges that must be understood when considering the rapid growth of the initiative.

Since its operational launch in 2000, the United Nations Global Compact has attracted both a lot of support and criticism. The Compact represents the world's largest network-based voluntary corporate citizenship initiative (Hemphill, 2005). The term "corporate citizenship" is adopted here from the literature as a descriptor for a voluntary change of business practices to meet the responsibilities imposed on firms by their stakeholders (Norman & Néron, 2008). It is, however, outside the scope of this article to undertake a careful delineation of the similarities and differences with "corporate responsibility". Although having made progress in terms of the large number of business and non-business participants (now numbering 6,000) and its likely impact on business practices (McKinsey (2007) concludes that nine out of ten participants are doing more towards the Compact's principles than they did five years ago), this progress also brought about a lot of criticism, largely from non-governmental organizations (NGOs), academics and the wider press. Thérien and Pouliot (2006, p. 67), for instance, argue that the Compact fosters a "pro-market spin" that breaks with the UN's traditional position and thus is eroding its legitimacy in the long run. Amnesty International (2003) complains about the missing accountability of the initiative and asks for a more rigorous assessment of whether participants are really complying with the principles. In a more radical way, Sethi (2003, p. 2) argues that the Compact "provides a venue for opportunistic companies to make grandiose statements of corporate citizenship without worrying about being called to account for their actions."

Even though in order to gain a balanced view of the Compact critical concerns need to be voiced (some of which demand institutional changes that run counter to the very idea of the initiative and its reason for existence), these criticisms must be examined and carefully evaluated. For future critical discussions to be meaningful and to provide possible pointers for improvement, the discussion about the Global Compact needs to (a) show more sensitivity to the

underlying core idea of the initiative, which is long-term *learning* experience and not regulation, and (b) address the constraints of the institutional framework in which the initiative is embedded. So far, there has been no systematic assessment of the critical voices that are raised, let alone attempts to clarify some of the misconceptions upon which they are based. Given the rise in the number of articles that criticize the Compact (Deva, 2006; Nolan, 2005; Rizvi, 2004; Thérien & Pouliot, 2006; Zammit, 2003), there is a need to clarify what the initiative is and is not.

This article has three main research objectives. First, it aims at structuring existing critiques of the Compact and offers an alternative perspective on the demands they place on the initiative. The article intends to show that much of the criticism is based on a misunderstanding of the nature and mandate of the Compact. Second, the article delineates a perspective that classifies the Compact as a *necessary* supplement to more regulative undertakings within the sphere of corporate citizenship (e.g., auditable standards for workplace conditions such as SA 8000 or regulation by governments). This discussion illustrates what the Compact is and, most of all, what it *is not* and how future critical assessments, although much welcome to further spur its expansion by providing needed expertise, should identify the initiative. Third, the article outlines future challenges for the Compact and thus highlights the remaining actions that need to be taken in order to secure its continued success.

To achieve these research objectives, the remainder of this paper is divided into five sections: The first section provides a brief introduction to the Global Compact as of 2008. As the Compact is an evolutionary framework that is continuously extended and modified, this descriptive exercise is necessary to paint a fair picture. The second section maps existing critiques of the Compact into three commonly-mentioned categories and assesses their viability when considering the goals of the initiative, as well as the overall institutional context of the

United Nations. The third section classifies the Compact as a necessary supplement to regulatory approaches and thus highlights what the initiative is about and on which grounds it should to be judged. This discussion helps future criticism to be presented in a way that is more compatible with the nature of the Compact and also allows for a better understanding of the relationship between the Compact and other initiatives (e.g., SA 8000). While the fourth section discusses existing challenges that the initiative has to address in order to achieve future growth and continued relevance, the fifth section provides a brief conclusion, including suggestions for further research.

## **The United Nations Global Compact**

### **What Is the Nature and Mission of the Global Compact?**

On January 31, 1999 United Nations Secretary-General Kofi Annan outlined the need for what he then called a “global compact” while speaking at the World Economic Forum in Davos. Annan proposed that “you, the business leaders gathered in Davos, and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market” (United Nations, 1999, p. 1). This speech would mark the birth of a global corporate citizenship initiative which was formally launched on July 26, 2000 at UN headquarters in New York with the support of multinational companies, UN agencies, global trade unions and a variety of NGOs.

The Global Compact engages the private sector to collaborate with the United Nations – in partnership with global labor, NGOs and academia to identify and spread good corporate practices in the areas of human rights, labor rights, protection of the environment and anti-corruption (Ruggie, 2001, p. 371; Ruggie, 2002, p. 301). The Compact seeks to weave a web of

joint values around the global economy; a web that is based on ten universal principles (see Figure 1). The *goals* of the Compact are thus based on the distinction between a macro and micro-level: on the macro-level the Compact facilitates cooperation, long-term learning and collective problem solving among a full cast of stakeholders, whereas on the micro-level it wants participants to internalize its principles into their strategy and daily operations.

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The Compact is *not* designed as a certification instrument or tool to regulate and sanction its participants, but instead to foster a dialogue among a diverse set of actors in a non-bureaucratic way. Participating companies are required to be transparent about their engagement by reporting on progress and action with regards to their implementation efforts. The change model that underlies the Compact is based on the idea that corporations, through dialogue and partnership projects, can show responsibility and make a difference once they learn from each other and other actors (e.g., UN agencies). This is not to imply that binding regulations are not needed, but that regulations must be complemented by a dialogue-based approach that gives reference to the fact that most companies still have a lot to learn when it comes to managing social, environmental and governance issues. The initiative is based on the idea of “principled pragmatism” which reflects the need to balance what is ideally expected to exist in the sphere of regulation with what is achievable given the current political environment.

### **Why Is There a Need for a Global Compact?**

There are many reasons why a globally-valid initiative that fosters the development and dissemination of shared values and their integration into the conduct of corporations makes sense. Some advocates of the Compact argue from a moral perspective. Williams (2004, p. 760), for instance, states that the Compact is needed because corporations have to respect (and cannot simply neglect) that they have a moral purpose as long as they want to be seen as a legitimate part of national societies and the emerging global order. Others, like Ruggie (2001, 2002), underline the business case by arguing that some corporations, by learning from other participants, avoid costly mistakes that their peers have committed.

This article highlights another dimension of reasoning that is often neglected when it comes to looking at why initiatives such as the Global Compact are needed. When focusing on changes in the global economic order, characterized in part by a globalization of problems facing mankind (e.g., climate change and poverty) and the increased politicized role of multinational corporations (Palazzo & Scherer, 2006; Windsor, 2007), one must recognize that these changes can only be addressed once businesses, civil society, and governments devise for the *global* economy the kind of institutional equilibrium that existed in the postwar *international* economic order (Kell & Ruggie, 1999, p. 103). In other words, a stable institutional framework is needed for doing business under the conditions of globalization. The need for such a framework creates two key challenges; on the macro-level there is the challenge to embed the global market in a network of shared values, whereas on the micro-level these values have to be implemented in the conduct of (multinational) businesses.

On the macro-level, the Global Compact is needed to address the omnipresent governance gaps that the rise of the global economy has created (e.g., with regard to environmental policy). The United Nations, as the only truly global inter-governmental organization with a

comprehensive mandate (Cohen, 2001, p. 185), provides the right framework to address these gaps. Although the Compact is by *no means* a substitute for national or international regulations and also not an all-inclusive framework for global governance, it is at least a first pragmatic response to government governance failures and defines an agenda for discussing issues of global governance (Kell, 2005, p. 78). Compact participants acknowledge that there is neither the time nor the need to wait until national governments “get it right” and international law sets binding regulations. The communicative, learning-based framework of the initiative needs to be understood as a *supplement* to existing and emerging regulatory efforts in the global business environment. Understanding the Compact as a supplement reflects the conviction that the governance battle cannot be won until it is based on new forms of social engagement that connect all relevant social actors (Ruggie, 2002, p. 298). Learning about macro-level governance problems is even more important when considering that the Compact has attracted a variety of major firms from emerging markets like China (Nash, 2003). Since these companies often lack knowledge on the relevance of social and environmental responsibility, they can, as Compact participants, start developing that kind of knowledge.

This discussion raises the question of how the relationship between the problem addressed by the Compact on the macro-level (i.e. global governance) and its proposed solution (i.e. learning and shared values) is intended to be understood. Following Rosenau (1992), global governance is the worldwide achievement of order through the issuance of systems of rule to address those governance problems that cannot be solved by sovereign national governments. Mechanisms of global governance include binding international law (e.g., the WTO) and/or soft law approaches (e.g., the Global Compact). Although binding international law is desirable, mutual learning and a set of shared values is indispensable for global governance to function.

The complexity of global governance problems requires taking multiple levels (e.g. national and international), as well as a variety of actors from different domains (e.g., the economy, politics and civil society) into account (Dingwert & Pattberg, 2006). Learning mechanisms and a set of shared values, as promoted by the Compact, help to establish a ground upon which solutions for complex governance problems can be discussed and advanced. In addition, learning mechanisms also allow spreading already available solutions across levels and actors (Kell, 2005).

On the micro-level, the Compact is needed to deal with the challenge of implementing and acting upon the values that are defined on the macro-level. Even though the Compact does not sanction or monitor but instead relies upon the enlightened self-interest of corporations to give specific meaning to its underlying principles within their day-to-day conduct, another reason for its existence is to help change corporate behavior. This goal reflects a specific perspective on corporate responsibility in general and corporate citizenship in particular. Participants are asked to move beyond a philanthropic understanding of citizenship, dominated by charitable donations and other forms of community actions (Carroll, 1991) and to instead change their core-business practices (Birch, 2001). Such an expansionist definition of corporate citizenship (Norman & Néron, 2008) assumes that businesses promote and participate in multi-stakeholder partnerships in order to identify and learn about their constituencies (Poncelet, 2003).

### **How Does the Global Compact Work?**

To understand how the Compact “works”, one needs to appreciate its constituent actors and their respective roles. Essentially, there are four core actors that create the Global Compact network (Kell & Levin, 2003). First, there is the *United Nations* system with its various agencies and offices. The Global Compact Office (that belongs to the UN Secretary-General’s Executive

Office) sets the administrative frame, provides strategic direction and performs quality control tasks. In addition, six UN agencies (i.e. the UN High Commissioner for Human Rights, the International Labour Organization, the UN Environmental Programme, the UN Development Programme, the UN Industrial Development Organization, and the UN Office on Drugs and Crime) offer expertise in special areas in order to set up and steer particular UN-business partnership projects that are created under the umbrella of the initiative.

Second, *businesses* are at the heart of the Compact. With currently over 4,700 corporate participants from developing and developed countries, businesses are encouraged to actively participate in dialogue and integrate the ten principles in their operations. Participating firms are required to not only publicly advocate the Global Compact (e.g., via press releases and speeches) but also to disclose annually how the ten principles are implemented and what progress has been achieved by submitting a so-called Communication on Progress (COP) report. Third, *governments* facilitate the ten principles by setting up regulatory frameworks on a national and supra-national level. The legal environment created acts as an enabling force that underpins and strengthens the ten principles.

Finally, *civil society organizations* and *labor* play a crucial role because they have competence and substantive knowledge with regard to practical problems. On the side of labor, the international trade union movement offers problem-solving competence concerning the implementation of the four labor-related principles. Civil society is mostly represented by non-governmental organizations. Many NGOs are increasingly referred to as partners that provide contextualized knowledge to businesses regarding projects that support the ten principles. NGOs also play a vital role within the dialogue and learning activities since they possess specialized knowledge about particular issues (e.g., HIV/AIDS) that often become even more focused once a

national or regional context is taken into account. Furthermore, NGOs act as watchdog institutions that speak up if business participants violate any of the principles.

The Compact links these actors through three engagement mechanisms; *learning events*, *dialogue events* and *partnership projects*. The three mechanisms serve the two major goals of the Compact (see above) since they (a) enable business and non-business actors to create, discuss, modify and extend a set of shared values within the global marketplace and (b) allow corporations to implement these values into their operations by sharing ideas and best practices. The engagement mechanisms are designed to function both at the global and national/regional level. On the national/regional level engagement is ensured through so-called local networks, which have been established in over 70 countries thus far. Local networks serve as a platform to create a close link between contextualized problems on the local level and the more abstract ideas and commitments that are developed at the global level. Networks are “translators” of the created global solutions and, at the same time, “innovators” looking for ways to implement the ten principles given the constraints and opportunities of a local context. In the following, the three engagement mechanisms are introduced and their role on the global and national/regional level described (see Figure 2).

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By *partnership projects* the Global Compact means active collaboration between business, civil society and governments under the umbrella of the ten principles. Partnerships seek to discover a common ground of interests between the private and the public sector and thus

combine and leverage available skills and resources on both sides. Often partnerships occur in direct support of issues discussed at the different loci for dialogue. DaimlerChrysler, for instance, has set up a project together with the German Development Agency (GTZ) to tackle the rise of HIV/AIDS in South Africa. This project is in direct support of the 2003 Global Compact Policy Dialogue on this topic. Whereas some partnership projects are embedded in a local context, others have a more global reach. Deutsche Telekom, for example, has started a Global Communication Initiative that aims to bridge the digital divide across different parts of the world.

*Dialogue events* are about identifying new and emergent issues that relate to any of the ten principles. However, it also attempts to build relationships and trust with other actors (e.g., by entering into partnership projects). On the global level, the Compact has created a variety of Policy Dialogues that focus on specific issues (e.g., the role of the private sector in conflict zones). These meetings act as an international platform to discuss problems and to gain mutual understanding about possible solutions. Another form of global dialogue is the triennial Global Compact Leaders Summit which brings together executives from business and non-business participants to chart the strategic course of the Compact itself. On the local level, networks are encouraged to facilitate dialogue on issues that are relevant to them and share the ideas developed at regional network conferences. Dialogue at the local level is especially valuable as it allows previously unconnected actors (such as SMEs) to enter into partnerships with other business and non-business participants.

*Learning events* are closely related to dialogue, however focus more on sharing pre-existing solutions and best practices and thus do not specifically aim to find new ways to promote the ten principles. Learning is crucial as participants can learn from available good

practices and thus follow notable examples that were developed under consideration of their region and sector. On the global level, learning occurs through direct interaction, such as at the International Learning Forum Meeting and also the Global Compact website. Corporations are asked to submit case studies and descriptions of best practices to the web portal to enable other participants to replicate and thus propagate available solutions. The Compact Office has also published a case study series that cluster examples (Global Compact, 2003a, 2003b, 2003c, 2004, 2006). At the local level, network meetings serve as a basis for learning and dissemination of best practices. Networks enable participants to learn from one another taking into account the constraints and opportunities of their region and/or sector. The UK network, for instance, has set up a peer review process of submitted COPs which allows participants to learn how to improve the quality of their COPs.

The three engagement mechanisms work together (e.g., projects also create learning effects) as indicated by the arrows in Figure 2. Engagement mechanisms alone do not ensure that a participant fulfills the two goals that the Compact serves. Rather, engagement by participating in learning, dialogue and partnership projects needs to be backed up by implementation of the principles throughout a participant's value chain.

## **The Global Compact and its Critics – An Assessment**

Since its inception, the Global Compact has faced a lot of criticism from a variety of sources. This article looks at the three *most often-mentioned*: i.e. that (1) the Compact supports the capture of the UN by “big business”, (2) its principles are vague and thus hard to implement and (3) it is not accountable due to missing verification mechanisms. The following discussion shows that this criticism is, at least in part, based on a misunderstanding of the initiative and its

underlying institutional framework. Other, less frequently-mentioned criticisms include an observed “non-seriousness” of participants (Deva, 2006, p. 113) and an over-focus on the participation of Western MNCs compared to SMEs from the developing world (Transnational Resource and Action Center, 2000).

### **Allegation 1: The Compact Supports the “Capture” of the UN by Big Business**

One common allegation raised by critical parties is that the Compact opens a window of opportunity for business to capture the UN. Zammit (2003, p. xxi), for example, argues that there is a basic inconsistency between the policy interests of developing countries and those promoted by the UN’s corporate partners. The fear is that big business will pursue its policy interests within the UN more directly by signing up to initiatives like the Global Compact. Such a view is also adopted by Nolan (2005, p. 465) who states that “[c]lose relations between the UN and big business provides ample scope for ‘capture’ such that the UN, the supposed rule setter, wittingly or otherwise begins to adopt the agenda of business partners without debate or true democratic procedure.” Thérien and Pouliot (2006, p. 67) thus conclude that the creation of the Global Compact has fuelled concerns about a break in the UN’s traditional, non-business position on economic issues. Furthermore it raises concerns that the institution adopts a “pro-market spin” that could, in time, lead to its silent privatization.

There are, however, at least two issues that should be taken into consideration here. First, the Global Compact is by no means the first, nor the only attempt to establish partnerships between the UN and business. Almost from its inception, the UN has had partnerships with businesses and business associations. Businesses and NGOs even joined the 51 nations that gathered in San Francisco, CA in 1945 to sign the UN Charter, and were *expected* to be part of

the solution to foster peace and development. However, owing to increasing media coverage, most partnerships have only recently entered the wider public consciousness. For instance, at the 2002 Johannesburg World Summit for Sustainable Development (WSSD) over 240 partnerships were announced, most of which were in the field of water and energy use (James, 2002). UN-business partnerships are neither a new nor exclusive feature of the Global Compact, however they have increased in number over the last decade. This increase may be due to the fact that many UN agencies have undergone an ideological change from confrontation to cooperation with regard to partnerships (Cohen, 2001; Kell, 2005). There is, of course, the question of why this change has occurred and whether it reflects a “capture” of the UN by business or whether it is simply in response to the rise of global markets and growing governance gaps at the local and global level. This question brings us to the second point.

It is important to understand that it is not the Global Compact that allows corporations to be closer to the agenda of policy makers at the UN but that corporations *are already* political players, quite independently of the Compact (Palazzo & Scherer, 2006). Corporations design and implement social and environmental standards (McIntosh, Thomas, Coleman, & Leipziger, 2003), are involved in peacekeeping (Fort & Schipani, 2002), provide education and healthcare (Williams, 2004) and fight corruption (Cavanagh, 2004). All of these issues are also on the UN agenda. This engagement has not been imposed on MNCs but is necessary since (a) national governments, especially in developing countries, increasingly fail to set a regulative framework under which such issues can be resolved and (b) many of today’s problems cannot be solved on a national level at all but need to be addressed globally, for example by *multinational* companies (Scherer, Palazzo, & Baumann, 2006). Under these conditions, collaboration between the UN and business is not only desirable but also needed as the UN’s goals can no longer be achieved

without collaboration with business (Bigge, 2004, p. 10; Kell, 2005, p. 71). In a world of growing interdependencies, neglecting and devaluing UN-business partnerships can only come at the price of sticking to existing ideologies. There is no basic inconsistency between the goals of business and the UN; both are interested in the existence of a stable global market that is sustainable and based on a social consensus of shared values. Neglecting this relationship may be possible in the short run but will go against the UN's mission over a longer timeframe.

UN-business partnerships are, of course, not without problems. It is not the direct capture of the UN by businesses but instead the ability of the latter to use the Compact as a means to position a specific idea of what corporate citizenship is about (i.e. learning *not* regulation) that needs to be watched carefully. As discussed below, learning is a supplement, but not a substitute, for regulation. For corporations, the UN is particularly attractive in this context as influencing the public understanding of what "good" corporate citizenship is about requires discursive legitimacy (among other things) which the UN clearly offers (Levy, 2008; Levy & Prakash, 2003). Since the majority of Compact participants are businesses or business associations, the initiative needs to ensure that the perspectives of multiple stakeholders are taken into consideration when shaping and framing the public understanding and expectation towards corporate citizenship.

### **Allegation 2: The Compact's Principles are Vague and Thus Hard to Implement**

The second criticism pertains to the Compact's lack of clarity with regard to its principles. Deva (2006, p. 129), for instance, notes that the principles hardly provide concrete guidance to corporations about the expected conduct. Requirements such as "action needs to be taken within a firm's sphere of influence" miss the precision necessary for a viable code of conduct. Deva

(2006, p. 129) further argues that “the language of these principles is so general that insincere corporations can easily circumvent or comply with them without doing anything.” Similarly, Nolan (2005, p. 460) and Bigge (2004, p. 11) claim that the Compact is surrounded by a lack of precision in content that does not even attempt to clarify its principles for its participants. Murphy (2005, p. 389) thus concludes that the Compact is at best a minimalist code of corporate conduct.

First of all, one must recognize that many of these critics want the Compact to be a clearly structured code of conduct against which compliance can be measured. However, as already mentioned, the very idea of the Compact is the creation of a long-term learning network that is used by business and non-business participants to share innovative ideas and best practices as to how the ten principles can be implemented. These principles provide a yardstick for the exchange of ideas, learning and discussion and are not meant to be a benchmark against which to assess compliance. The goal is to establish consensus and best practices on what, for instance “a precautionary approach to environmental challenges” means within a firm’s respective region and sector. Over-specified principles could even turn out to be counterproductive as they would limit the scope of possible solutions right from the beginning. The ten principles rather provide corporations with the opportunity and highlight the need to “fill” their general character with context specific meaning.

Thinking about context uncovers yet another reason for the general character of the principles. Although regional in its impact, the Global Compact is designed as a global initiative with no restrictions on the size, sector or region of its participants. Currently, 52% of all business participants are small and medium-sized enterprises coming mainly from Europe, Latin America and Asia (Global Compact, 2007). The wide variety in corporate size, sector, region and

available resources of participating companies does not allow for the introduction of clear-cut principles. For instance, a “precautionary approach to environmental challenges” has a different meaning for a large MNC operating in the chemical sector, compared to an Indian SME doing business in the IT industry. It is in this spirit that the UNDP-sponsored handbook for implementing the Global Compact recognizes that “company approaches [toward the ten principles] are very different. It highlights the flexibility of the Compact and the fact that there is considerable scope for adapting the initiative to the specific needs and situation of the individual participant.” (UNDP, 2005, p. 8)

It is the very idea of the Compact acting as a moral compass for participants (Kell, 2003, p. 47); a compass that addresses corporate diversity through a learning-based approach which allows firms to contextualize the general principles within their respective business context. The bottom line is that there are a variety of ways to implement the ten principles: The Compact’s values need to be *translated* into action, a task (like any other management task) that can be approached from different angles.

### **Allegation 3: The Compact Is Not Accountable Due to Missing Verification**

The last allegation, that the Compact is not accountable because it does not independently monitor and verify compliance with its principles, is probably the most well known critique that has appeared consistently for the last eight years in the academic and non-academic press (recently see Bigge, 2004, p. 12; Deva, 2006, p. 146; Engardio, 2004, p. 86; Nolan, 2005; Rizvi, 2004; Thérien & Pouliot, 2006, p. 67). It is in this spirit that Nolan (2005, p. 462) argues that “accountability, or rather the lack of it, is the crucial issue that faces the Global Compact.” Critics argue that a lack of serious monitoring, sanctions, enforceable rules and independent

verification fosters the misuse of the Compact as a marketing tool (Deva, 2006; Rizvi, 2004). In the eyes of these critics the Compact is a public relations smokescreen without substance that allows powerful MNCs to “bluewash” their damaged image. In other words, they seek to associate their operations with the blue UN flag in order to gain legitimacy. Ultimately, the fear is that such a lack of accountability can lead to adverse selection in that those companies most eager to join are the ones in need of a good public image (Williams, 2004, p. 762).

In order to address this allegation in a comprehensive way, two issues need to be discussed and understood. First, one cannot and should not criticize the Compact for something it has never pretended or intended to be; a compliance-based mechanism that verifies and measures corporate behavior. From its inception, the initiative was never designed as a seal of approval for participating companies as certification would require far more resources than are currently available. The Compact instead expects proactive behavior from its participants. Its learning approach is advantageous insofar as a code of conduct (that would be needed for monitoring) is always static and thus does not allow participants to react flexibly to varying environmental circumstances (Ruggie, 2002, p. 304). Without a doubt, it should be in the enlightened self-interest of the Compact to prevent free-riders from misusing the initiative. However, the prevention of opportunistic behavior does not ultimately require close monitoring of corporate actions. The decision faced by rule-setters is not between fully monitoring corporate behavior *or* not monitoring at all. Rather, there is something in between.

For the Compact this “in between” is reflected by demanding that its participants report on progress they have made in implementing the principles on an annual basis. The above-mentioned COP policy allows the Global Compact Office to gain an overview of a company’s bottom-line activities. Although the Compact does not yet require standardized COP reports, it

encourages its participants to follow the recently released G3-guidelines of the Global Reporting Initiative (Global Reporting Initiative, 2007). Since COPs are primarily aimed at participants' stakeholders, they foster a social vetting mechanism that is intended to increase report content and quality over time. Social vetting means that other parties (e.g., NGOs) are asked to use submitted COPs as grounds to judge corporate behavior and file complaints that the Compact can use as a basis for investigations. If a company fails to submit a COP report within a year it is labeled "non-communicating", while after a second year of non-reporting the firm is labeled "inactive" and completely delisted after yet another year of non-communication. This policy has already led to 945 participants being labeled "non-communicating", 263 as "inactive" and 630 being permanently delisted (data as of July 2008). The case for ensuring accountability by demanding COPs is a good one as its content needs to be publicized in prominent documents (e.g., the annual report) which usually are approved by a company's board.

A second issue that deserves attention here is the question of whether verification, although not the aim of the Compact, would be achievable at all. Three points are important in this context: (1) the development of indicators; (2) the issuance of a mandate and (3) the accessibility of resources.

- (1) First, even if desired by the Compact, monitoring of participants would be nearly impossible as it requires performance indicators relevant to *all* companies in *all* countries and sectors. Without such measures a meaningful comparison of monitoring results, and thus the creation of sanctions, is not only impossible but would also weaken the Compact's accountability as any imposed sanctions would be perceived as arbitrary.

- (2) Second, the Global Compact currently has no mandate to monitor or verify compliance with its principles. Since the initiative is embedded within the UN system, the establishment of legally-binding regulations would require the support of the UN General Assembly, which is unlikely given the current international political climate (Ruggie, 2002, p. 303). Even if such a compromise were to be established, it would reflect the “lowest common denominator” of the currently 193 UN Member States and thus echo a weak mandate. Attempts to transform the Compact into a code of conduct would not only miss political support but also not fit the current climate of cooperation and collaboration between the UN and business.
- (3) Third, the logistical and financial resources to effectively and efficiently monitor MNCs and their supply chains, let alone SMEs around the world are simply not available. Given that there are currently over 4,700 business participants, annual (or even biannual) monitoring of corporate behavior would require personal, logistical and financial resources that are way beyond the Compact’s current capacity. Nike, for instance, has over 750 direct suppliers in 52 countries. It is precisely for this reason that certification standards such as SA 8000 award certificates for just *one* production facility but never for an entire corporation and/or supply chain (Gilbert & Rasche, 2007). The addressees of the Compact, however, are entire corporations and not single production facilities.

To conclude, a variety of factors prevent the Compact from being a tool for regulation; most of all its underlying idea of creating space for learning and cooperation. Of course, measures such as the annually-required COP reports are essential to strengthen the case for

accountability. However on their own they do not reflect a compliance mechanism in the narrow sense.

This in-depth discussion of the three allegations demonstrates that there is need to clarify the intent of the Compact. Discussing these allegations should *not* indicate that these critical voices do not deserve to be heard. The tensions they create can lead to productive discussions and even innovations to the initiative. Instead this article argues that there is need to be more careful when judging the initiative for something it never pretended or intended to be. In the following section, the role of the Compact as a supplement to national/international regulation and voluntary regulative standards (e.g., SA 8000) is outlined. This discussion is intended to lead future critical assessments in a more fruitful direction; a direction that enables the initiative to learn from and leverage the suggestions made by its critics.

### **The Global Compact as a *Necessary* Supplement**

Whereas the last section discussed what the Global Compact *is not*, this section focuses on what the initiative *is*, with a focus on the contentious issues that were previously raised (e.g., lack of mandate and resources to monitor). Overall, this article argues that the Compact is best understood as something that *necessarily* supplements approaches with a regulative character towards corporate responsibility. Following Baldwin, Scott, & Hood (1998), regulation can be defined as something that transcends the law and includes all mechanisms of social control by state and non-state actors to direct corporate behavior according to predefined standards. In this sense, regulation is about sustained and focused control (Selznick, 1985, p. 363). The learning-based approach of the Compact is a supplement to regulation because it should never replace

national and international regulatory systems. Instead it is useful where (1) corporations are willing but have trouble putting regulations into practice and thus need to learn about implementation and (2) where regulations fail or are ineffective and need further development. Both of these situations will be explained further.

First, the Compact supplements regulation by national governments, intergovernmental institutions and compliance-based voluntary CSR-standards because it enables a learning process within corporations – a learning process that allows firms to establish compliance with these regulations in the first place. Regulation by itself is often limited in its potential because those who are regulated need to learn how to implement and “live” the letter of law. The myriad of corporate scandals around the globe shows that regulation by itself is in no way sufficient. Regulated parties need to find out what the letter of law means, how it can be implemented and, most of all, they need to be willing to carry out serious implementation efforts. The Compact helps corporations to address these issues by providing a forum that disseminates best practices and thus translates existing regulations (e.g., international law with regard to human rights issues) into real-life actions. Furthermore, it can also positively stimulate the motivation to comply with regulations by identifying notable best practices and thus exercise peer-pressure on competitors.

Second, the Compact also supplements existing regulations whenever the latter are not working efficiently or are completely absent. For instance, in theory supplier factories in developing countries comply with employee protection codes (Webb, 2004, p. 6), whereas in practice there is little enforcement of these rules and voluntary, regulative instruments such as SA 8000 or the FLA workplace code only cover a small share of the overall number of workers. For other problems, for example climate change, there are no binding regulations at all. Of

course, the Compact does not define a regulatory framework to tackle climate change, however offers a forum where this issue can be discussed to develop measures that can act as a *temporary* solution until binding regulations emerge. The recently launched *Caring for Climate* platform shows that Compact participants (e.g., Deutsche Telekom and Unilever) have come up with a variety of innovative ways to address climate change within their business operations. Setting up the *Caring for Climate* platform does not indicate that there is no need for regulation to fight climate change, but that preliminary results are possible even in the absence of binding rules. Kofi Annan recognized this when referring to the Compact as a pragmatic interim solution with regard to existing governance gaps (United Nations, 2004). Talking about pragmatic solutions, of course, does *not* indicate that learning and the formulation of shared values solely fill the omnipresent governance gaps, nor does it mean that global governance can do without regulation. It merely stresses the fact that (a) interim solutions are necessary as long as binding global regulations are not in sight and (b) regulations always should be supplemented, not replaced, by a learning-based approach towards governance.

In other words, there are two understandings of the Compact's supplementary nature; the Compact as a supplement to learn about and action existing regulations *and* the Compact as a supplement to missing regulations. These two understandings reflect a *necessity* as every regulatory framework needs to be enacted by its addressees. The Compact provides a forum where such enactment can take place. Regulations, whether they be laws, standards or codes of conduct, need to be understood; otherwise they will be ineffective. The letter of the law remains useless as long as the spirit of the law stays unrecognized. By utilizing a variety of engagement and dialogue mechanisms, participants of the Compact make sense of existing regulations by sharing best practices and innovative solutions. Furthermore, regulations show a strong tendency

towards inflexibility and over-formality (Bardach & Kagan, 1982) which can lead to adversarial “going by the book” attitudes to compliance (Coglianese & Nash, 2001). The Compact is necessary in this context because it adds flexibility to existing regulations and thus allows for the inclusion of emerging topics (e.g., climate change).

To conclude, in order to appreciate the nature of the Compact there is a need to leave the dichotomy of “effective regulation by law” *versus* “ineffective voluntary commitment to non-regulating learning tools”. The choice is not one of an either/or-type but should reflect a both/and way of thinking. That is why this article characterizes the Compact as a supplement – something that *adds-itself-to* regulation but always requires further actions. The International Chamber of Commerce (2004, p. 1) echoes this by claiming that “the Global Compact’s greatest strength lies in its voluntary nature, which acts as a powerful complement to the necessary action by governments themselves to safeguard and advance its principles.”

## **Moving Ahead – Perspectives and Challenges**

Although this article shows that some of the critical voices are based on a misunderstanding of the nature of the Compact and/or demand changes that are unlikely to occur in the current political climate of the UN, there are a variety of challenges that the Compact needs to address in order to maintain or even increase its relevance. This article highlights four issues which represent key success factors for the development of the initiative; (1) the management of *growth*, (2) the management of *diversity*, (3) the continued strengthening of *accountability*, and (4) the inclusion of *financial markets*. Of course, these are by no means the only challenges, as other important issues also exist. For example, the need for collaboration

with governments to strengthen the ten principles with binding regulations or the more active consideration of problems that relate to international supply chains. Hence, the following four issues do not represent an exclusive list but are indicative of future challenges, the discussion of which is beyond the scope of this article.

**Managing Growth.** The first major challenge results from the tension that is created between the continued expansion of the initiative – from 50 participants in 2000 to over 6,000 in 2008 – and the constraints of managing such a fast-growing and flexible network of actors within a rather rigid organization such as the UN. It is no secret that the UN system is overly-characterized by a bureaucratic and hierarchical way of management that is not always in a position to provide quick responses to the emerging needs of a proliferating initiative such as the Global Compact. In particular, inter-agency collaboration and also collaboration of UN agencies with non-state actors cannot rely on the rather sticky UN-procedures for issuing mandates. Instead it needs to be driven by shared incentives, a decentralized decision-making style and commitment towards the Compact's ten principles.

There is also a danger that the Compact may become politicized in the sense that the UN demands intergovernmental oversight. Although the current mandate, backed by a General Assembly resolution (United Nations, 2001), gives the UN Secretariat clear responsibility for the Compact, this status needs to be maintained, especially when bearing in mind the expected further growth. The achievements of the Compact and its steady growth are based on its pragmatism and the network-based governance model underlying its operations; politicizing the initiative would put these two success factors at risk.

**Managing Diversity.** A second challenge deals with achieving greater diversity in terms of corporate size, represented sectors and, most of all, the geographic spread of business

participants. Although some areas of the world have not yet attracted a lot of participants (e.g., the Middle East), it is especially remarkable that North American companies only comprise a small portion of the overall share of the Compact's business participants (i.e. around 200; Global Compact, 2007). This number is particularly striking because North American (especially US) companies represent a much larger percentage of the world's largest corporations according to the Fortune Global 500 index than their participation rate in the Compact indicates. One major reason is that North America is a more litigious society than Europe or Latin America. Companies are afraid of lawsuits that are filed by adversaries, accusing US participants of not complying with the principles (Hemphill, 2005, p. 312; Williams, 2004, p. 758). As Ziegler's (2007) empirical study reveals, US participants often cite fear of litigation as an obstacle against membership in the Compact. This participation barely improved even after the Compact, together with the *American Bar Association*, developed a litigation-proof letter in 2004 which shields US participants from lawsuits based on claims that they failed to comply with the principles. Even though there is no evidence whether this letter holds the force of law, other reasons must also play a role.

The reluctance of US businesses to join the Compact is also reflected by the ongoing fear of public criticism. As mentioned above (Allegation 3), there still is a lot of criticism of the Compact's accountability. Thus, firms fear that once they join they will be accused of "bluwashing" their operations regardless of how well they implement the principles. In a time of increased transparency and media attention such assertions can be very harmful to a corporation's public image. The Compact can only address this concern by (a) continuing to communicate the purpose of the initiative and strengthen existing integrity measures (e.g., the COP policy) and (b) supporting outreach activities through its established US local network.

Since the US hosts many MNCs, increased participation is not only desirable but also necessary to address issues related to global supply chains.

**Ensuring Accountability.** A third challenge deals with further strengthening the accountability of the initiative in order to protect its integrity and ensure sustainable growth. Accountability is, among other things, directly linked to an organization's ability to provide transparency of its operations and an evaluation of the progress and results against its goals and objectives (Blagescu & Lloyd, 2006; Rasche & Esser, 2006). To assess the accountability of the Compact, one needs to look at two inter-related issues; on the one hand information communicated by participants about their progress in implementing the principles and on the other, information regarding the impact communicated by the Compact itself. Concerning corporate reporting, there is a challenge to not only demand annual Communication on Progress, but also to ensure comparable quality of the submitted reports. Although the Compact has no authority to judge the actions of corporations, an industry-specific benchmarking system for the annually-submitted reports would help (a) to provide incentives for participants to submit improved reports as well as a guide to do so and (b) to increase the comparability of report content and thus foster learning and dialogue among participants. Achieving such a benchmarking system means to strengthen the already existing relationship with the Global Reporting Initiative to come up with a selection of mandatory core indicators for COP reports. In addition, the currently existing categories for failed COP reporting (i.e. non-communicating, inactive, delisted) should be merged into one category. This shortens the "grace period" for non-reporters and thus provides incentives to submit a report on time.

Regarding impact-related information communicated by the Compact itself, there has recently been much improvement. The *UN Global Compact Annual Review* (first introduced at

the 2007 Leaders Summit in Geneva) includes specific and comprehensive data on the overall progress of implementing the ten principles throughout the world. The challenge is to make this information more reliable by supplementing the (so far) quantitative survey-based data with more detailed qualitative interview-based data. For first attempts of this approach see Cetindamar & Husoy, (2007) and McKinsey & Company (2004). To date, a systematic effort to assess the impact of the Compact in a comprehensive manner has not been attempted, mostly due to the high costs of gathering and evaluating information at different levels of aggregation (Kell, 2005, p. 63). The accountability of the initiative could be strengthened if a comprehensive impact assessment can be produced and disseminated on a regular basis. Impact assessments also need to show whether Compact-related projects by business participants are integrated into core-business practices, as indicated by the initiative's understanding of corporate citizenship (see above), or whether such projects reflect philanthropy and are thus isolated from a participant's business. After all, positive results of impact assessments could also prove that the flexibility inherent in the ten principles "pays off".

**Including Financial Markets.** Finally, there is the challenge of winning *financial markets* over to base future investment decisions – to a much larger extent than at present – on social and environmental criteria. Although empirical research offers mixed results when it comes to the relationship between corporate social performance (CSP) and long-term financial performance (ranging from no significant relation [Aupperle, Carroll, & Hatfield, 1985] to a significant positive relation [Waddock & Graves, 1997]), a meta-analysis by Orlitzky, Schmidt, & Rynes (2003) finds a generally positive impact of CSP on firms' financial performance across industries and across study contexts. This perspective is also in line with a recent study by Goldman Sachs (2007) which finds that business leadership on social, environmental and governance issues can

contribute to better market performance. The Compact, by promoting the Principles for Responsible Investment (PRI), can help to set the right institutional framework for responsible investment-decisions. If institutional investors start acknowledging the PRI as a guideline for their decisions, the business case for the Compact will become more obvious. Of course, participation in the Compact should never be *limited* to the business case. However, future growth of the initiative will depend on the environment that is set by financial markets. Responsible investment decisions can lead to stable, accountable and thus profitable market conditions which should be in the enlightened self-interest of all market players – especially when considering the recent turbulence of mortgage markets around the world.

## **Conclusions**

This article seeks to show that (a) the mass of critique of the Global Compact is often, yet by no means always, based on a misunderstanding of the very nature of the initiative as well as its underlying mandate; (b) there is need to give more credit to its supplementary nature with regard to state and non-state regulation and; (c) to ensure a continued, sustainable growth of the initiative many challenges need to be addressed. Being in its eighth year of operation now, the Compact has achieved much in a rather short period of time; it not only is the largest corporate citizenship initiative in terms of size but also the most inclusive one bringing together a diverse set of business and non-business stakeholders. In addition – and this may be one of the most valuable side effects of the set up of the Compact – its dynamic and flexible network-based governance structure can promote necessary reforms of the UN system *from within*. The

Christian Science Monitor (2000), for example, praised the Compact as being “the most creative reinvention” of the United Nations to date.

Future conceptual and empirical research can and should support the evolution of the Compact. First, researchers can add expertise and insights to develop a more systemic and comprehensive impact assessment. Whereas there are a number of conceptual studies that introduce the content and governance structure of the Compact (Deva, 2006; Nolan, 2005; Thérien & Pouliot, 2006; Williams, 2004), there are almost no empirical insights on the implementation of the ten principles in corporations. The academic community can add much-needed information by conducting studies about the impact of the Compact on existing business practices. One key question is, for instance, whether and how participating firms have changed existing routines (e.g., with regard to supplier relations).

Second, academics can also add valuable knowledge on a more conceptual level. For instance, the contribution of the Compact as an institutional arrangement within the emerging system of global governance needs to be explored more closely. Addressing this topic necessitates discussing how the Compact relates to other institutional arrangements that have occurred recently (e.g., stakeholder management standards like AA1000) or are about to occur (e.g., the ISO 26000 guidelines; see also Gilbert & Rasche, 2008). Scholars can also add valuable insights when it comes to discuss why the Compact, because of its multi-stakeholder nature, is a meaningful and much-needed initiative that addresses declining public trust in traditional state-centered political institutions. The discussion of legitimacy, as recently outlined by Palazzo & Scherer (2006), offers many interesting points of departure here. Third, future research should also advance the initiative itself by critically discussing its existing engagement mechanisms and underlying governance structure. It is our hope that these discussions will take up the issues

raised in this article to present arguments that consider the nature of the Compact together with its institutional setting to a greater extent.

Without a doubt, the Compact has not yet achieved all of its goals. However, researchers and practitioners should give credit to the fact that neither its goals nor its underlying structure exist in a stable environment and thus reflect steady solutions. A start has been made and the point of departure taken by the initiative is a very promising one. The Compact is by no means a sufficient concept to ensure governance in a global economy, however only a small part of the overall solution (Rasche, 2009; United Nations, 2004). Whether the Compact succeeds in creating a more inclusive global economy that is embedded in a framework of fundamental, yet indispensable, values remains an open issue. Even the most ambitious journey has to start somewhere and the Global Compact has already helped to propagate the seeds of an emerging solution. History will be the judge on its success.

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Figure 1

<b>Human Rights</b>	Business should support and respect the protection of international human rights within their sphere of influence; and
	make sure they are not complicit in human rights abuses.
<b>Labour</b>	Business should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	the elimination of all forms of forced and compulsory labour;
	the effective abolition of child labour;
	the elimination of discrimination in respect of employment and occupation.
<b>Environment</b>	Business should support a precautionary approach to environmental challenges;
	undertake initiatives to promote greater environmental responsibility;
	encourage the development and diffusion of environmentally friendly technologies.
<b>Anti-Corruption</b>	Business should work against all forms of corruption, including extortion and bribery.

Figure 2

