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**The UN Global Compact: Can
It Provide An Answer To Critics Of Globalization?***

Oliver F. Williams

There are some critics of globalization who are not only advocates of the Global Compact but, to some extent, are responsible for its very existence. We are in the midst of a paradigm shift where "soft" transnational law is gradually complementing and completing "hard" national law. The impetus for this "soft" transnational law comes not from national political discussion but from the work of NGOs who are critical of globalization and who research and lobby in the worldwide society for collective action across national borders. A brief overview of the Compact will be followed by a discussion of one of the drivers of the formation of "soft" international law: a concern to retrieve the notion of the moral purpose of business. Finally, I conclude with some reflection on the reasons why I believe the Global Compact will be part of the answer to restoring social harmony and political stability in this time of great economic volatility.

The Global Compact: A Brief Overview

Whenever I reflect on the strengths and weaknesses of the UN Global Compact, I am reminded of the comment of Winston Churchill on democracy:

Many forms of Government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of government except all those other forms that have been tried from time to time. (Hansard, November 11, 1947).

When the Secretary General of the United Nations, Kofi Annan, in 2000, first promulgated the Global Compact, he had a clear vision of the problem, but only a broad outline of the solution. The problem was that globalization of markets, while it created vast amounts of new wealth, did not distribute this new wealth very well. Millions of people in India and China were lifted out of poverty, but many people in the world were victims rather than beneficiaries of this new engine of wealth creation. Whether it be blue collar workers who lost lucrative jobs on auto assembly lines in Detroit, populations of major cities in China that lost clean air to breathe or poor peasants who were subjected to sweat shop conditions in Asia and Latin America, increasing discontent was in the air. In former times of great economic volatility, nation states took measures that restored social harmony and political stability.

For example, the Great Depression of some 65 years ago was the birthplace of the social safety net, evolving into such programs as social security, medical benefits, unemployment insurance, food stamps and so on. The problems today are global in scope and even where nation-states might be willing or able to regulate, they are reluctant to do so for fear of losing new investment to nations with less stringent regulations. The race to the bottom is a fact of life in developing countries.

Kofi Annan saw clearly that if globalization and its ability to create massive wealth was to continue, there must be a set of ideals which would guide business and insure that the legitimate concerns of all, especially the least advantaged, were not neglected.

This set of ideals, what has become known as the Global Compact, consists of ten principles. Over four thousand businesses throughout the world have already signed on as participants.

(As of June 25, 2008, there were 4, 619 business participants and 1, 363 non-business stakeholders, of which over 600 are NGOs).

The ten principles of the Global Compact focus on human rights, labour rights, concern for the environment and corruption and are taken directly from commitments made by governments through the UN: the Universal Declaration of Human Rights (1948); the Rio Declaration on Environment and Development (1992); the International Labour Organization's Fundamental Principles and Rights at Work (1998); and the UN Convention Against Corruption (2003). The Global Compact was designed as a voluntary initiative. A company subscribing to the Principles is invited to make a clear statement of support and must include some references in its annual report or other public documents on the progress it is making on internalizing the Principles within its operations. This Communication on Progress (COP) must also be submitted to be posted on the Global Compact Website. For a good sample of the projects companies have undertaken to advance human rights, labor rights, environmental stewardship, and the struggle against corruption, see the *UN Global Compact Annual Review: 2007 Leaders Summit and Human Rights, Labour, Environment, Anti-Corruption: Partnerships for Development*, both available on the Website (<http://www.globalcompact@un.org>). Failure to submit a COP within two years of becoming a signatory to the Company (and subsequently every year) will result in being delisted. As of June 2008, 630 companies have been removed from the list of participants for failure to communicate progress. (See the Website for companies delisted).

Scholars have suggested the ethical codes are of two major types, aspirational or directional. An aspirational code offers a set of ideals, general in nature, that members of an organization are expected to hold but it does not have any enforcement mechanism. A directional code provides detailed guidelines and sanctions for all members. The Global Compact falls in the middle of this continuum with clear ideals and limited enforcement. The unique mission of the Compact is to foster the growth of humane values in the global society, a challenge heretofore managed by nation-states for their own domestic situation. To advance the 10 principles, the Global Compact has established over seventy country and regional networks where dialogue, learning and projects are carried forward in a local context. Kofi Annan, former Secretary General, expressed it well: "Let us choose to unite power of markets within the authority of universal ideals. Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations."

Retrieving the Moral Purpose of Business: A Crucial Dimension of the Global Compact

Does the UN Global Compact provide an answer to critics of globalization? The answer is "yes" and "no", depending on which critics one chooses to address. Some critics see little value in the Compact unless the principles are somehow mandated by a worldwide legal framework. Since the Compact relies on transparency and the interest companies have in maintaining their good reputation as the ultimate sanction, those critics advocating a statutory approach are unimpressed.

There are, however, critics of globalization who are primarily concerned with advancing and retrieving the moral purpose of business, and these may be advocates of the Compact considering what it has done and plans to do.

To be sure, there is a business case for corporate responsibility and the work of the Compact. Not only does following the Principles have a high likelihood of saving the company money by avoiding costly litigation but it also enhances reputation capital, builds brands, enables a company to attract and retain valuable employees, develops trust, and so on. In addition, creating sustainable value in a company by attending to environmental, social and governance (ESG) performance is increasingly rewarded by the investment community. The Global Compact is one of the factors advancing the trend toward a broadening of the criteria by which the market assesses the performance of companies. This broadening of criteria is reflected in two movements inspired by the Global Compact, one in the investment community and one in higher education. *The Principles for Responsible Investment* is a credo

subscribed to by leading investment managers throughout the world and currently has some \$ 14 trillion of assets under its management. *The Principles for Responsible Management Education* is a code for business schools reflecting the need to educate future business leaders with this new, broadened vision. Over one hundred business schools have already subscribed to this new initiative. (See the text of both these documents on the Global Compact Website).

While many companies find the business case for the Global Compact compelling, it is the moral case that has the interest of some leading NGOs and critics of globalizations. These critics are concerned that in developing countries where there is no enforced statutory framework to protect workers and the environment, MNCs are acting unethically with impunity. Many NGOs have risen to the occasion and mobilized public opinion about the need for some global standards. As for the Global Compact, there is evidence that businesses are walking the talk. A recent survey of the CEOs of companies participating in the Compact by McKinsey & Company revealed that 93% of the companies are incorporating environmental, social and governance issues into their firm's core strategy more than they were 5 years ago(Exhibit 9). And many CEOs were interested in ensuring that the benefits of globalization reached the poor of the world(Exhibit 7). (See *Shaping the New Rules of Competition: UN Global Compact Participant Mirror*, available on the Global Compact Website).

The ten Principles of the Global Compact have been given added force by the UN Millennium Development Goals (MDGs), a blueprint for action agreed to by all the countries of the world as well as leading development institutions. With the target date of 2015 for completion, the eight MDGs are (1) eradicate extreme poverty and hunger; (2) achieve universal primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria and other diseases; (7) ensure environmental sustainability; and (8) develop a global partnership for development. Facilitated by the Global Compact Office, commitment to these ideals has brought businesses into new collaborative relationships with nongovernment organizations (NGOs) throughout the world.

In a way, the Global Compact is the fruit of a process that first took shape in the 1970s with the Sullivan Principles for South Africa.

The Sullivan Principles were the first instance of a shift from state-centric regulation to a new form of regulation created and implemented by the private sector and civil society. Opposing apartheid in South Africa was also the first instance where political ends were pursued by *directly* pressuring businesses without going through the government. NGOs, through their research and advocacy work, helped shape public opinion on the evils of apartheid. Up to this time, it was assumed that promoting and protecting civil, political and social rights were the exclusive domains of the nation-state. What we observe here is the beginning of the demise of the strict division of labour between the private and public sectors. In large measure, this new role of business in society – advancing citizenship rights – was advocated by civil society because governments were either unable or unwilling to do it on their own.

Leon Sullivan, the charismatic leader of the Sullivan Principles, advanced a compelling argument for companies assuming this new role in society. Sullivan was fond of telling the companies, "Where there is power, there is also responsibility." Sullivan's point was not that companies had caused apartheid, or that they could buy legitimacy by dismantling it. Simply put, apartheid was wrong, and because the companies had the economic power to dismantle it, they should do so. It was the right thing to do. If a company would not work to dismantle apartheid, Sullivan would publicly shame it and force it to leave South Africa. This notion that organizations that have power have to be accountable to society or else they lose their legitimacy is not new. In the business context, Keith Davis, in 1966, coined the phrase "the iron law of business responsibility". In contemporary business literature the *term license to operate* is often used to convey the idea that society has certain expectations of business. If business does not meet those expectations, business loses its legitimacy, and there is a price to pay as a result. In the South African apartheid struggle, there are many examples of U.S. society influencing the *license to operate* of companies perceived to be sustaining apartheid. For example, in the 1980s, 168 state, city, county, and regional authorities had some form of policy restricting their business dealings with U.S. companies thought to be irresponsible in

using their corporate power in South Africa. Thus, the City of Chicago was precluded by one of these “selective purchasing ordinances” from buying buses from General Motors. GM learned the hard way about the power of the people. Similarly companies today understand that although the Global Compact does not have an independent monitoring and verification provision, the power of the people could influence the license to operate.

Jeffrey Sachs, arguing with logic not unlike that of Leon Sullivan, makes the point that with some moderate assistance from the developed world, the dire poverty characterizing the lives of millions of people could be overcome. He has enlisted business to assist in this challenge in his Millennium Village Project.

Laws like the selective purchasing ordinance in the City of Chicago prepared large companies to be proactive in meeting society’s expectations and to see the wisdom of collaborating with NGOs in designing and implementing ethical rules for the global community. The UN Global Compact, for example, entails self-regulation, rule making, and rule implementation without the assistance of governments. “Soft” transnational law complements “hard” national law and the impetus for this law comes not from national political discussion but from transnational civil society. At least in practice, there is clearly a change underway in the way the responsibilities of the private and public sectors are appointed. More reflection on the conceptual foundations of this recalibration may be helpful, but it is clear that many in civil society find globalization more palatable with the Global Compact on the scene.

The Global Compact: A Process to Create a Sustainable Future

In conclusion, I advocate the United Nations Global Compact as a forum and an instrument to bring the best minds together from business and civil society. There is a growing consensus that with the large aggregates of money and power, multinational corporations (MNCs) have a moral obligation as corporate citizens to assist the poor in the global community, but the extent of these obligations is unclear. The Global Compact offers a forum under the umbrella of the United Nations – with its visibility, global reach and convening power – where some of the best members of civil society – non-governmental organizations, academic and public policy institutions, individual companies, business associations and labour representatives – can come together to discuss the changing role of business and its *moral* purpose.

*Some of the text here is taken directly from my forthcoming book, *Peace Through Commerce: Responsible Corporate Citizenship and the Ideals of the United Nations Global Compact*, (Notre Dame, IN: University of Notre Dame Press, 2008).