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The UN Global Compact: Moving to the Business Mainstream

An Interview with Georg Kell, Executive Head

"The Global Compact is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social actors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalisation." Now in its sixth year of operations and housed administratively at the highest level of the United Nations, the Global Compact has become a source of ideas and a platform for action for nearly 2,000 companies worldwide, including some of the world's largest and most respected. Its work has only begun. Under the able direction of Georg Kell, an economist and engineer by training who joined the Office of the Secretary-General in 1997, the Compact is gaining the engagement of the world's companies in voluntary programmes that combine corporate social responsibility with a new level of rigour in global risk management. Information about the Global Compact is available at www.unglobalcompact.org.

PwC: Does the Compact have a governance system that effectively monitors and measures whether companies are living up to their commitments?

Mr. Kell: The Global Compact is not an enforcement mechanism. From the beginning, Kofi Annan has made clear that this is not a benchmarking system that measures good and bad. It's a learning dialogue and a platform for action. It assumes that over time, once principles are embedded in organisations through new practices, improvement will occur. This approach is quite an innovation—it has little to do with conventional thinking about the value of close measuring and monitoring versus voluntary initiatives. The Compact is a principles-based initiative that starts with CEO commitment, effective communication to employees, implementation within the organization, and communication through corporate documents. There is ample evidence that this approach can be effective—in fact, ample evidence that a principles-based change process achieves far greater positive change than any threat mechanism can achieve. You can look at the Global Compact as a voluntary initiative that assumes leadership commitment and implementation within organisations. We are concerned about the "brand management" of the initiative. Of course we are concerned to avoid free riders who might use it for purposes other than its stated goals. And of course we are interested in listening and in learning, especially about the most promising initiatives and change processes that have been set in motion. We do have an array of quality measures at our disposal, many of which have been designed by our participants who want to protect their investment in the Global Compact and ensure that the good name of the Compact is not only maintained but increases over time.

PwC: What would be an example of an effective quality measure in the environment of voluntary initiatives you've created?

Mr. Kell: Local networks now active in over 40 countries are creating their own organisational entities. And business leaders are keeping an eye on each other to ensure that the Global Compact commitment is taken seriously. We have currently about eight networks with formal structures that include some form of self-governance and quality standards—but such organisations can take many forms. At the global level, naturally we stress quality. On our website, we're about to focus on the theme of communications progress. We do expect companies to communicate on Global Compact issues in their annual reports or other public documents such as corporate social responsibility (CSR) or sustainability reports. The guidance we offer about communications is a flexible framework, and we are not about reporting. The Global Compact stresses actions. Nevertheless, you want to have credible communications, and therefore we recommend three elements. The first is CEO commitment. It should be there every

year; change can only be driven if it's supported from the top. Secondly, telling a good story—when there is a good story—really matters. There's much to be learned from good stories. I wish we had more good stories, but we are hearing them now, increasingly. The third component is reporting on performance in the four areas the Compact addresses: human rights, workplace issues, environment, and anti-corruption. And there we do suggest some broad performance indicators. Companies with in-house performance indicators are of course free to apply them to the measurement of Compact issues, and many are doing so. Alternatively, companies can look to the outside world for professional expertise to help them define suitable performance indicators. If companies ask us, we recommend the Global Reporting Initiative (GRI) as a framework for performance measurement, but we recognise that there is a big market out there. We assume that, over time, the market will increasingly pick up on these issues and come forward with credible performance benchmarks. So consider us a flexible change agent, promoting good performance with a heavy emphasis on leadership commitment, organizational change, and practical projects. Don't consider us an end-of-the-pipeline benchmarking system—that is not our mandate and not our goal.

PwC: It sounds as if you have deliberately decided not to monitor, at least for now.

Mr. Kell: We do not have the mandate, competency, or resources even to think seriously about monitoring. We have today nearly 2,000 companies in the Global Compact, and this is the United Nations: we must be open to companies. We want to draw companies into the fold rather than keep them out. We are making good progress in China, for example. We are very proud to be established in Egypt and Pakistan. In these countries and others, the demand simply for a good understanding of Global Compact concerns and issues is immense. What does human rights mean in the workplace? What does it mean to treat your workers well? How can I perform in an environmentally sound manner? The demand for basic tools is immense, and our best and highest impact is to bring companies into the fold. For example, we have a learning forum soon in Saint Petersburg. And there we expect to offer basic concepts and simple, useful toolkits. As a global initiative, we work both with market leaders and with companies at the entry level where our issues are concerned. We recognize that market leaders—large corporations with well-established reporting mechanisms—are in search of robust responses. And to such companies we say, "Look, the market must sort this out. The GRI is out there. Use it. And if you want to certify your performance through a third party, go for it." National legislation varies greatly from country to country, and that too has to be respected.

PwC: What is the return on investment for companies that commit to the Global Compact?

Mr. Kell: There are, of course, well-established general arguments. For example, we advocate the CSR gospel to some extent—you know, more employee satisfaction with the company, greater ability to attract young, talented people who expect more than just strong financial performance. But more specifically, there are opportunities for partnerships with the UN, and they can be beneficial. The UN is active in many field offices around the world, and partnership opportunities are quite plentiful. Secondly, the Global Compact is multi-stakeholder; our learning and dialogue meetings always involve business, labour, and civil society. Such meetings offer an opportunity for partnerships to overcome divides. But here, to my mind, is the most interesting point, and it's not at all a classical corporate social responsibility argument. It's new, and it's becoming powerful. I think that CSR is somewhat losing its innocence, if I may call it that, and increasingly moving to the business mainstream. Why? Because the whole issue is ultimately one of risk management. More companies are seeing that getting it wrong can be very costly. They are seeing that if they make a mistake on the environmental front, on the social front, on workplace issues such as sweatshops—you name it—the costs can be huge. So they want to protect themselves. Social, environmental, and governance criteria are also increasingly perceived as criteria for long-term viability. They can serve as a compass to navigate the risks associated with exposure to global markets. The risk paradigm is increasingly taking over much of the dynamics that initially were kicked off by other kinds of CSR values—by the wish to do the right thing or to be perceived as doing the right thing. Now, the issue is at least as much protecting against damage and

proactively managing risks. So I would argue that the biggest benefit of the Global Compact, if taken seriously, is to further at the top levels of companies a more strategic perception of the role, impact, and vulnerabilities of businesses with global exposures to different markets, cultures, and risks. Risk management increasingly requires corporate leaders who understand the social and environmental dimension within which companies operate and create value.

PwC: Could you give us an example, however well-disguised, of a specific company that is thinking along these lines?

Mr. Kell: I've just come back from a high-level meeting with a global company in the financial arena. The discussion was almost exclusively about how to combine a global philosophy with local value-added capacity. And the bottom line was the company leaders' recognition that the company must have its values correct everywhere, irrespective of where they operate. They must have a common ethical framework. They acknowledge that this is expected of them, and that it represents the only way to be viable over time. For this reason, the company knows that it needs a much deeper understanding of the social, environmental, and governance risks and opportunities that surround it wherever it operates. I think that this kind of strategic thinking, which overlays traditional business opportunity thinking around products and services, is increasingly taken seriously.

PwC: If we may ask, what specifically did this company want from you?

Mr. Kell: They wanted advice, based on our experience. Among other things, they wanted to know whether their way of evaluating the issues is a global trend, or are they more or less on their own. I confirmed for them that there is indeed a trend—we are picking up observations from a variety of developments. For example, we have a forum here in New York at which major financial institutions are exploring how to analyse environmental, social, and governance criteria at the industry level, as part of assessments of the long-term viability of individual companies. That is a major shift. Only 12 months ago, it was almost unthinkable that what some people might call “soft” issues would now become analytical tools for long-term viability assessments. There is quite a dramatic change under way. CSR is no longer just a do-good affair or a device to protect reputation. It is becoming a strategic index of the long-term soundness of companies.

PwC: What was insufficient about doing the right thing and protecting your reputation? From many points of view, those are compelling motivations.

Mr. Kell: I would agree with you—that should be enough. But the world is more cynical and complex than that. And there's something else to consider: doing the right thing can generate more damage than good if it's not tied into a holistic, long-term perspective. For example, arranging scholarships for 10 bright kids in a poor country while ignoring other young people may contribute to social unrest. Similarly, if pharmaceutical companies hand out a few packages of life-saving medicine but give no thought to the long-term robustness of a poor country's healthcare system, they may well be “doing the right thing” but failing to get to the heart of the matter. We are speaking of complicated issues: how to get development going, how to ensure that a more accountable and enabling environment is created. In most countries where there are grave problems and where corporations are exposed to those problems, the root cause has to do with the fact that governments are not doing what they are supposed to do—either because they are too poor to do it and public institutions just don't have the needed resources and training or because governments are corrupt and abusive. There are civil wars in 15 countries right now. There are situations closely resembling civil war in some 30 other countries. There is systemic corruption in nearly 60 countries. This suggests that what companies can accomplish in the spirit of “doing good” is fine and needed but unlikely to tackle the long-term problems. Whatever companies do, they need to be aware of its relation to public policy making and to long-term development trends. Business is part of society, part of the DNA that grows the future. And if you grow the future, you have to be aware of how you shape the future. You cannot afford to be

naïve, to close your eyes in front of a corrupt or abusive government, or to avoid looking at the fact that public education or public health services may be going nowhere.

PwC: What response are you receiving from companies in the United States? CSR doesn't seem to raise as much enthusiasm and commitment there.

Mr. Kell: Let me be quite frank. I think American companies are the leaders in so many fields—in technology, management, organizational change, total quality management, and so on. Much of the benefit that business brings with it comes from the US, either directly or from business models developed in the US and adapted elsewhere. It remains the number one innovation centre, and that is unlikely to change. I respect US business. What I'm saying relates to CSR, as well. Wealth creation allows business to contribute to society. From that perspective, I would say that American companies are doing better than others. Are American companies indifferent to CSR? I think American companies have shown a high level of engagement with CSR issues around the world. Most of our partnership initiatives include American companies—among the greatest companies in this country. Now, you could ask, why are not all US companies participating in the Global Compact? On that point, there is some good news: over 70 companies are signatories. That is still a small number, given the huge pool, but not insignificant.

PwC: Seventy is a very small number!

Mr. Kell: We still have a long way to go, and there are three structural challenges to overcome. First we have to continue to demonstrate that the Global Compact is about action and not about trying to impose. In this regard, we have a solid five-year track record, and Kofi Annan has made this point time and time again. People are starting to believe it now. Secondly, the US is a very litigious society. Therefore, the challenge of getting a CEO to sign on to principles is much greater than in any other culture. Luckily, we now have what we call a litigation-proof letter endorsed by the American Bar Association. As we spread knowledge about this letter, it should help to overcome the legal barrier.

PwC: That letter can be used by a company to state its intentions concerning participation in the Global Compact?

Mr. Kell: Engagement in the Compact starts with the CEO's commitment. The CEO writes to Secretary-General Kofi Annan more or less as follows: we have looked at the Global Compact, the principles are relevant, we want to use them as an ethical framework, I will drive them through my company, and once a year in our internal publication we will communicate how our performance is changing with respect to Global Compact principles. The CEO might also write that he or she is interested in entering into partnerships with UN offices around the world, and committed to fighting poverty and to creating opportunities and employment. This initial letter is a big headache for US legal counsel. They always say "No, don't sign anything"—especially in the current climate. To save the day, the American Bar Association letter we can now offer to CEOs is litigation-proof. It was vetted, I think, by 20,000 business lawyers. The Bar recommends it as a CEO engagement letter.

PwC: What is the third structural challenge?

Mr. Kell: In smaller countries—Switzerland and Singapore, for example—the Compact is very strong and large corporations embrace it, in part as a way to reach out to the world. The US, on the other hand, is a big country and market. An outward-oriented focus is probably not as widespread, although US-based global corporations are increasingly aware of the Compact. Given world trends, we believe time is on our side.

PwC: What would you care to communicate through our publication about your vision for the future of the Compact?

Mr. Kell: We still have some distance to go to reach critical mass in some markets. I hope that American corporations increasingly see the benefits of engagement in the Compact through partnerships on the ground and through working with other actors. My message to the American corporate community is to look at the track record of the Global Compact, to look at the consistency of our message, and to overcome real or perceived barriers to engaging with us. On the broader world front, my wish is that we learn how to scale up good practices. We know of so many good examples at individual companies—great contributions. But even these contributions are small compared to the problems we face. We need more companies involved in order to scale up. And over time we need companies to deepen their commitment to the Compact.

PwC: Thank you for your time Mr. Kell.