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**International Bar Association Series**  
**Corporate Social Responsibility**

The Corporate Governance of the 21st Century

Second Edition

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*Ramon Mullerat*

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## Chapter 15

# The Global Compact

*Hans Corell*

### A. THE BEGINNING

At the World Economic Forum in Davos on 31 January 1999, United Nations Secretary-General Kofi Annan advocated the Global Compact. As a point of departure, he proposed nine universal principles in the areas of human rights, labor and environment. Referring to these principles, he asked business leaders to contribute to a sustainable and inclusive global market. The actual launch of the Compact took place in July 2000.

After the signing of the United Nations Convention against Corruption in 2003, a tenth principle – against corruption – was added in June 2004.

Much has happened since then, and today the Compact encompasses several thousand companies, other stakeholders and business organizations, both national and international, from all regions of the world. It includes international trade unions or union bodies, civil society entities at the global level, business schools and UN agencies.

Furthermore, participation in the Compact is open to all academic institutions committed to implementing the 10 principles, and there is even a Global Compact Cities Programme. In this context, it is of particular importance to note that the Compact also includes Corporate Social Responsibility (CSR) organizations.

## B. THE PURPOSE

The purpose of the Compact is to convince the actors on the global markets that they should rally around shared values. In order to achieve more sustainable and inclusive global markets, special attention should be paid to the world's poorest people. The Compact has two objectives: mainstreaming the 10 principles in business activities around the world, and catalyzing actions in support of broader UN goals, including the Millennium Development Goals. The Compact attempts to achieve two complementary goals. The first, which is of particular interest to all lawyers advising business, is to make the Compact and its principles *part of the internal strategy and operations of business*. The second goal is to engage different stakeholders and facilitate cooperation among them, in particular, when there are common problems that must be solved.

Within the Compact, four key mechanisms have been developed to accomplish these goals, namely: policy dialogues, learning, local networks and partnership projects.

## C. THE PRINCIPLES

The principles upon which the Global Compact is based are taken from the areas of human rights, labor, the environment and anti-corruption. These principles are derived from four documents that enjoy universal support, namely:

- The Universal Declaration of Human Rights.<sup>1</sup>
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work.<sup>2</sup>
- The Rio Declaration on Environment and Development.<sup>3</sup>
- The United Nations Convention against Corruption.<sup>4</sup>

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values within these four areas. The principles are as follows:<sup>5</sup>

### *Human Rights*

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

### *Labour Standards*

- *Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- *Principle 4:* the elimination of all forms of forced and compulsory labor;

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1. <http://www.un.org/Overview/rights.html>.

2. <http://www.ilo.org/dyn/declaris/DECLARATIONWEB.INDEXPAGE>.

3. <http://www.un.org/esa/sustdev/documents/agenda21/index.htm>.

4. <http://www.unodc.org/unodc/en/treaties/CAC/index.html>.

5. <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html>.

- *Principle 5*: the effective abolition of child labor; and
- *Principle 6*: the elimination of discrimination in respect of employment and occupation.

*Environment*

- *Principle 7*: Businesses should support a precautionary approach to environmental challenges;
- *Principle 8*: undertake initiatives to promote greater environmental responsibility; and
- *Principle 9*: encourage the development and diffusion of environmentally friendly technologies.

*Anti-corruption*

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

For the purposes of the present brief overview, it is not necessary, nor is it possible, to go into detail about the contents of the principles. In subdivision J, reference is made to material that contains extensive explanations of what these principles represent and the reasons why they are included in the Compact.

## D. THE ACTORS

The purpose of the Compact is to involve all actors concerned. First and foremost, governments are concerned, since they are the ones who define and adopt the principles on which the Compact is founded. Next comes business, since the purpose of the Compact is to influence business. Another obvious actor is labor, since labor is the focus of several of the principles and is engaged in the process of global production. Civil society and the United Nations itself are other important actors.

### 1. GOVERNMENTS

The Global Compact is sometimes criticized for attempting to shift the responsibility for the observation of international commitments from governments to business. It is therefore important to stress at the outset that the primary responsibility for the principles rests with governments. First, governments provide the necessary legitimacy and universality to the principles of the Compact. All of the underlying documents have been adopted under the auspices of inter-governmental organizations. Consequently, implementation of the principles must be based on and take place within the standard legal framework at the national level. Hence, it is for governments to support the implementation of the Compact at the global and national levels.

As the system has developed, governments seek to support the Compact at the national level, in particular, in the formation of networks. They are also encouraged to establish policies to advance the purposes of the Compact.

At the global level, governments engage with the Secretary-General to develop the Compact and to engage other actors in the work. The Compact also enjoys the support of the UN General Assembly which, on 21 December 2009, renewed and expanded the mandate of the Global Compact Office and the UN office that supports the initiative in its resolution 'Towards Global Partnerships'.<sup>6</sup> The Compact is also recognized in a number of other inter-governmental contexts.

## 2. BUSINESS

With respect to business, it is important to stress that the Compact is a voluntary initiative with the purpose of promoting responsible global corporate citizenship. One of the fundamental ideas is that business leaders should be brought together to build a movement that is strong enough to support the ideals of the Compact. *Therefore, a crucial precondition for a successful work within the Compact framework is that the Chief Executive Officer, and the Board of Directors are behind the Compact.* It is from them that the initiative to join the Compact must emanate.

In the words of the Global Compact Office, the company that has committed itself to the Compact and its principles:

- Must set in motion changes to business operations so that the Global Compact and its principles become part of strategy, culture and day-to-day operations.
- Is expected to publicly advocate the Global Compact and its principles via communications vehicles such as press releases, speeches, etc.
- Is required to annually communicate on progress in implementing the 10 UN Global Compact principles through a public corporate report (e.g., sustainability or annual report).

To this author, the last item is of particular interest, since this was an idea that he advocated already in June 1998 when he was asked to challenge a Workshop on the topic 'Is the Business of Human Rights Also the Business of Business'.<sup>7</sup>

One of the explicit commitments that a company makes when it joins the Compact is to produce an annual Communication on Progress which serves several important purposes: to instill accountability; to drive continuous improvement; to safeguard the integrity of the Compact as a whole; and to contribute to the development of a repository of corporate practices. It is vital that great attention is paid to this communication, which should be mainstreamed in the company's existing communications methods.

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6. A/RES/64/223.

7. [http://untreaty.un.org/ola/media/info\\_from\\_lc/address\\_06\\_26\\_98.pdf](http://untreaty.un.org/ola/media/info_from_lc/address_06_26_98.pdf).

3. LABOR

As it appears, internationally recognized labor standards, including the fundamental rights are part of the 10 principles of the Compact. These standards are developed in a process in which business and labor play critical and central roles. However, labor plays a role that is different from those of business and other elements of civil society. This is the reason why labor is treated as a separate actor in the Compact. Of particular interest here is that labor has a distinct role in ILOs supervisory procedures designed to ensure that agreed labor standards are implemented at the national level. Furthermore, it is important in this context to refer to the practice of solving issues of interest to the Compact through collective bargaining agreements. This is common practice in many countries and is now also expanding at the global level. A number of framework agreements have been concluded between major companies and the international trade union bodies.

4. CIVIL SOCIETY

Important actors in the Global Compact are also organizations from the civil society. They provide valuable assistance by lending credibility and social legitimacy to the efforts, and they can often help by solving problems and explaining the Compact's operations in more general contexts. These organizations participate both in the dialogue and as project partners. However, equally important is their advocating the 10 principles to larger audiences and challenging business both locally and at the global level to take a stand on the issues that the Compact is concerned with.

5. OTHERS

There are also institutions with expertise in the areas of human rights, labor, the environment and anti-corruption that can contribute to the activities of the Compact. Many such institutions have also made important contributions. Academic institutions and think tanks are among the participants, and there is an Academic Network that plays a catalytic role in the Compact's operation by preparing business case studies and commentaries on examples, and by undertaking research on global corporate citizenship. The Global Compact Cities Programme, dedicated to the promotion and adoption of the Compact's 10 principles by cities and to translating them into day-to-day urban governance and management, should also be mentioned.

E. HOW DOES ONE PARTICIPATE?

First, reference should be made to the extensive information on participation in the Global Compact which is available on the Compact's website.<sup>8</sup> The information is

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8. <http://www.unglobalcompact.org/>.

directed not only to business but also to non-governmental organizations and other non-business participants.

With respect to substance, as previously said, the Compact and its principles must be translated into business strategies and operations. Obviously, the responsibility for this activity rests with each participating company. But in order to further advance the goals of the Compact, the actors are encouraged to work together through dialogue, learning and projects at all levels.

### 1. POLICY DIALOGUES

The Global Compact Office stresses that dialogue is central in order to achieve mutual understanding and joint efforts among business, labor and non-governmental organizations in solving key challenges of globalization. The Office maintains that in this effort to influence policy-making and the behavior of all stakeholders the outcome is threefold: products that can engender changes in policy frameworks, encompassing both incentive structures and regulatory mechanisms; products that can influence the actual behavior of participants; and collective action by like-minded actors working together.

### 2. LEARNING

The Compact's Learning Forum has three specific goals: to identify critical knowledge gaps and to disseminate information; to communicate good practices and cutting-edge knowledge to participants; and to foster accountability and transparency through its web portal that should both facilitate dialogue and enable web links to relevant public documents. An important ingredient is the sharing of experiences in the form of presentations, examples or case studies both at meetings and on the Compact's website.

### 3. PARTNERSHIP PROJECTS

As already emphasized, an important goal of the Compact is to take action and engage in partnerships to advance the broader UN goals, such as the Millennium Development Goals, among them ending poverty and hunger.<sup>9</sup> A means to this end is Partnership Projects. The Compact's website is therefore open to participating companies, labor and civil society organizations who want to share such experiences with others. According to the Global Compact Office there are three broad types of partnerships: advocacy and awareness raising partnerships; social investment and philanthropy partnerships; and core business partnerships.

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9. <http://www.un.org/millenniumgoals/>.

The Compact is working on a number of levels to facilitate partnerships between stakeholder groups, and has inspired numerous development-related projects and partnerships at the local level. The Global Compact Office can function as an entry-point for companies that want to partner with the United Nations system.

#### 4. LOCAL NETWORKS

An important element in the work of the Global Compact is the development of networks at the regional, national and local levels. Such networks perform increasingly important roles in rooting the Compact within different national, cultural and language contexts. Their role is to facilitate the progress of companies (both local firms and subsidiaries of foreign corporations) engaged in the Compact with respect to implementation of the 10 principles. They also create opportunities for multi-stakeholder engagement and collective action.

#### F. THE ADMINISTRATION OF THE GLOBAL COMPACT

As mentioned, the Global Compact was launched at the initiative of the Secretary-General of the United Nations. To administer the initiative, a Global Compact Office was established at the UN Headquarters in 2000. It is financed by governments and is working within the framework of the United Nations and in accordance with its goals.

Since 2004 there is also the Global Compact Leaders Summit, which is a triennial gathering of the top executives of all Global Compact participants and other stakeholders with the aim of producing strategic recommendations and action imperatives related to the future evolution of the initiative.

There is also the Global Compact Board, first appointed by the UN Secretary-General in 2006, to provide ongoing strategic and policy advice for the initiative as a whole and make recommendations to the Global Compact Office, participants and other stakeholders. The Board is comprised of four constituency groups – business, civil society, labor and the United Nations.

The Compact is furthermore supported by six UN core agencies, namely the Office of the High Commissioner for Human Rights, the International Labour Organization, the United Nations Environment Programme, the United Nations Development Programme, the United Nations Industrial Development Organization and the United Nations Office on Drugs and Crime. However, this does not mean that other UN agencies are excluded from participation. Further information about the administration of the Compact appears on its website.

#### G. THE GLOBAL COMPACT AND CSR

One question that is often asked is why a company that has already established its own code of conduct should participate in the Global Compact. The answer is very

simple: such codes are extremely important. And companies that have demonstrated leadership and made changes in their policies should be commended. However, such codes are typically quite narrow in focus, often leaving out important issues such as human rights. The purpose of the Global Compact is different: it seeks to add new dimensions to good corporate citizenship by creating a platform – based on universally accepted principles – to encourage innovation, in particular, through new initiatives and partnerships with civil society and other organizations.

So, basically, the Global Compact is a voluntary corporate citizenship initiative with two main objectives: to mainstream the 10 principles in business activities around the world and to catalyze actions in support of United Nations goals, in particular the Millennium Development Goals.

The obvious conclusion is that those who advise companies and, in particular, transnational companies must have a clear understanding of these interrelationships and that the business community has an important role to play here.

## H. THE GLOBAL COMPACT AND ANTI-CORRUPTION

As already mentioned, a tenth principle – against corruption – was added to the Compact in 2004. The need for a principle-based approach to fighting corruption within the framework of the Global Compact was actually raised already at the outset. The subject matter was revived after the signing of the United Nations Convention against Corruption in Merida, Mexico on 9 December 2003.<sup>10</sup>

Against this background, the Secretary-General started in January 2004 consultations with participating companies to solicit their views regarding a potential introduction of a tenth principle against corruption. A formal letter was sent to all participants seeking their views. The Secretary-General stressed that the adoption of such a principle would only occur if there was broad-based support, and that such an addition would be exceptional in nature. The consultation process concluded on 7 May 2004.

Based on the results of the consultation process, the Secretary-General formally proposed to a Global Compact Leaders Summit, held in New York on 24 June 2004, the principle against corruption that now appears in the Compact. With the Secretary-General's announcement to the summit, this tenth principle was adopted.<sup>11</sup>

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10. <http://www.unodc.org/unodc/en/treaties/CAC/index.html>.

11. <http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/principle10.html>. In his closing remarks at the Summit, the Secretary-General said: 'Today we added a tenth principle to the Compact, to combat corruption. The extensive consultation that you went through to arrive at this amendment not only showed that an overwhelming majority of participants wanted to strengthen the Compact in this way; it also was an exemplary deliberative process. As a result, the Compact is now better positioned to address one of the most pernicious obstacles to growth and development, and to cooperate more intensively with groups such as Transparency International'.

The importance of combating corruption cannot be stressed enough. As Secretary-General Kofi Annan said in his message at the opening of the Conference for the signing of the UN Convention against Corruption:

[i]t is now widely understood that corruption undermines economic performance, weakens democratic institutions and the rule of law, disrupts social order and destroys public trust, thus allowing organized crime, terrorism, and other threats to human security to flourish. No country – rich or poor – is immune to this evil phenomenon. Both public and private sectors are involved. And it is always the public good that suffers. But corruption hurts poor people in developing countries disproportionately. It affects their daily life in many different ways, and tends to make them even poorer, by denying them their rightful share of economic resources or life-saving aid.<sup>12</sup>

## I. THE ROLE OF THE LAWYER

Needless to say, lawyers, and in particular those who serve as corporate counsel, have an important role to play in relation to the Compact. One can take human rights as a point of departure even if the argument could be made equally for labor, environment and anti-corruption. Lawyers also have a special responsibility in society. It is of particular importance that they are familiar with the international obligations that their country has undertaken at the international level, that is vis-à-vis other states, and contribute to the fulfillment of such obligations.

Naturally, a corporate counsel's main responsibility is to his or her client. But the two responsibilities may not necessarily conflict. On the contrary! The matters that the Compact focuses on are often given prominent attention in the media and public discussion. Ultimately, companies will be assessed by public opinion. And, as we know, in the public debate the agenda is often set by non-governmental organizations. It is therefore important that companies are proactive in the fields that the Compact encompasses also in their own interest.

It is said that corporate lawyers are concerned that by joining the Global Compact, companies might be held accountable if they do not meet the standards. This author does not believe that this is so, since the Compact is not a legally binding instrument. Rather, the principles are aspirational in nature. We should also remember that human rights protection is an obligation mainly for governments vis-à-vis their citizens and those who reside in their countries.

This focus on governments has resulted in a debate where some argue that a transnational company cannot raise human rights issues because that would have detrimental effects on the possibilities of the company to do business in the country in question. This is of course an argument that cannot be swept aside completely. But there are ways to address this dilemma also. We should remember that there are

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12. [http://untreaty.un.org/ola/media/info\\_from\\_lc/corruption\\_message.pdf](http://untreaty.un.org/ola/media/info_from_lc/corruption_message.pdf).

multinational companies that have been severely criticized, and probably also suffered economically, because of lack of observation of human rights, labor and environmental standards as well as for not taking effective action against corruption.

Another concern expressed by corporate lawyers is that companies might be held liable for the behavior of their contractors and subcontractors. In the view of this author, this is not so, at least not because of the Global Compact. Furthermore, and more importantly, there should be means of dealing also with this problem. In particular, one could stipulate in the contracts (where appropriate also with reference to subcontractors) standards that the companies engaged must honor. Indeed, more and more companies are considering their supply chains in the broadest sense, and asking their business partners to uphold similar principles.

## J. MATERIAL AVAILABLE

As already mentioned, there is a very elaborate website to assist all interested.<sup>13</sup> It is strongly recommended that corporate lawyers and others interested visit this website, which contains extensive material which is constantly updated. Also, in case the need arises to present the matter for example at a board meeting there is even a slide collection that can be used for the purpose.<sup>14</sup>

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13. See *supra* n. 8.

14. [http://www.unglobalcompact.org/NewsAndEvents/news\\_archives/2008\\_11\\_12.html](http://www.unglobalcompact.org/NewsAndEvents/news_archives/2008_11_12.html).