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Global Compact: Corporate Engagement at the UN

An Interview with Georg Kell

The UN Global Compact was launched in 2000 by former Secretary-General Kofi Annan to promote corporate social responsibility. The Compact now engages over 8,000 corporate participants from more than 150 countries, along with 4,000 not-for-profit collaborating organizations. Allen White, Senior Fellow at Tellus Institute, talks with the Compact's recently retired Founding Executive Director, Georg Kell, about the genesis and evolution of the Compact, and the prospects for driving corporations beyond incremental change

To begin, please describe briefly what the Global Compact is and does.

The Global Compact was created in 2000 to spur more socially and environmentally responsible corporate practices. The basic approach revolves around [ten principles](#) already enshrined in various UN declarations and treaties spanning human rights, labor standards, environmental protection, and anti-corruption. Participating corporations commit to incorporating these principles into their strategies, policies, and procedures, and to issuing public reports on their progress at regular intervals—the Global Compact's so-called Communications on Progress (COP). The Compact also encourages participating corporations to actively support complementary UN initiatives such as the recently approved UN Post-2015 Agenda and the corresponding Sustainable Development Goals.

What type of engagement with the private sector did the UN have before the creation of the Compact?

Formal UN engagement with the business community goes back to 1974, with the founding of the UN Centre on Transnational Corporations (UNCTC). This emerged out of the North-South debate in the 1970s around the "New International Economic Order," a set of proposals submitted by a group of developing countries to the UN to enhance their terms of trade, increase development assistance, and reduce unfavorable tariffs.

UNCTC was not without controversy. Its flagship product, the Code of Conduct, attempted to scrutinize business practices, drawing the ire of many multinationals. On the other hand, some member states feared that UNCTC could enable selected private firms to exercise undue influence on UN activities. Over the years, however, the Code of Conduct was shelved, and the UNCTC was ultimately abolished in 1993. Member states of the UN were not willing to give the UN a mandate and resources to deal with multinationals.

What does the demise of UNCTC say about the UN's ability to create and enforce business codes of any kind?

Major business associations on both sides of the Atlantic spearheaded the opposition to UNCTC's engagement with the private sector, and American groups were especially assertive. This opposition has softened to some degree over time, but by and large, the global business community continues to resist any action by the UN that may lead to compliance-based regulatory regimes.

By the late 1990s, a new form of UN-business engagement was stirring, based on existing UN declarations and frameworks. Why had this not occurred earlier when the declarations and frameworks were first created by member states?

Until the late 1980s, the Cold War dominated and polarized international affairs. In this period, the UN had to be neutral with regard to the role of markets and private enterprise in the global economy; it could neither embrace nor reject them. With the fall of the Berlin Wall in 1989, this need for neutrality receded. The acceptance of neoliberal doctrine expanded, and the mood of the UN shifted toward reconciliation and collaboration with business, and away from UNCTC's more confrontational approach. New opportunities for East-West and North-South engagement were also emerging in the new geopolitical climate, with the rise of emerging markets in the late 1990s.

And this new environment led to the creation of the Global Compact.

Exactly. Secretary-General Kofi Annan believed that an opportunity for a new form of engagement was within reach. To seize the moment, he chose not to ask governments to give the UN a mandate, the traditional approach, and instead introduced the Global Compact via a speech. This move marked a shift toward using the bully pulpit afforded him by his position to catalyze action instead of waiting for member states to take initiative. He made a direct appeal to transnational corporations to embrace and support a global framework whose elements UN member states had already agreed to via various declarations and norms in the areas of environmental protection, human rights, labor standards, and anti-corruption.

Did member states readily accept this unconventional form of executive action?

No. From the outset, opposition was intense, especially among nations of the South that feared imposition of Northern values on companies operating within their jurisdictions. India launched an intergovernmental inquiry calling for oversight of the Compact. It took enormous effort to overcome objections, explaining again and again that the Compact was a voluntary initiative that would serve as a complement to, rather than substitute for, the actions taken by member states while drawing directly from existing international accords that reflect the consensus among sovereign governments worldwide. With the rapid growth of the Compact's "Local Networks" around the world—the Indian and the Nordic Local Networks were the first in 2001—governments changed their views. They realized that the Compact was not a Trojan horse aimed at creating trade barriers.

Over time, the Compact has gained legitimacy, obtaining a "soft license" from the UN General Assembly to pursue its mission without intergovernmental oversight. This delicate balance—

intergovernmental support without intergovernmental oversight—remains central to its modus operandi.

In retrospect, would you say that the assertiveness and proactivity Kofi Annan demonstrated in launching the Compact was uncharacteristic of Secretary-Generals?

Yes. Kofi Annan's message was both candid and courageous. He confronted business leaders with the indisputable reality that their global power and reach were not being matched by their commitment to and practice of global responsibility. He stressed that it was in the self-interest of businesses to "give globalization a human face," rather than simply putting their trust in profit maximization as a pathway to global prosperity. This took place one year before the anti-WTO protests in Seattle, when anti-globalization was a strong part of the zeitgeist. In this context, the UN offered itself as a bridge to constructive engagement with business based on principles already in place.

Were there voices calling for a more prescriptive, compliance-based approach to advancing the Compact's principles?

Mandatory, compliance-based regimes, while more muscular in principle than voluntary programs, do not take into account the complexity and cost of implementation. In the real world, the absence of regulations is not the problem: the problem is lack of implementation. Some 90 countries suffer from systemic corruption and weak, if not failed, government. This makes strong enforcement virtually impossible. An estimated 1.5 billion people live under conditions of chronic violence, a condition directly linked to weak governmental institutions. These conditions undermine not only human security, but also any prospects for effective regulatory oversight of business or any other activity.

The UN Book of Conventions is 2,000 pages long, filled with well-intentioned but too often unenforced, or unenforceable, regulatory frameworks. At the end of the day, global frameworks can motivate and inspire, but unless there is willingness on the ground to translate fine words into action, top-down enforcement does not work.

Many would argue that even effective enforcement of global agreements entrenches incrementalism, thereby reducing the prospects for deeper, more transformative change that addresses issues of extraction, accumulation, and limitless growth embedded in mainstream economics and business models.

The reality is more complex. Incremental change can lead to transformation by preparing the ground for more radical changes. The same applies to the relationship between voluntary and regulatory approaches. Both are needed and should reinforce each other.

One of my last acts as head of the Compact was to drive consideration of carbon pricing as a global political issue. I had become tired of seeing companies pat themselves on the back for their carbon practices while lobbying against climate action at the same time. I argued that a sign of real change would be to see business support for pricing carbon at a rate high enough to influence internal investment decisions. And a few are now stepping forward. Getting there will be an uphill battle, but pricing externalities in a way that fundamentally alters business behavior could be transformative.

Revamping tax systems could also be a means to achieve more transformative change. The tax system is not just a fiscal matter; it is a measure of a society's moral fiber. When tax systems are inadequate and unjust, governments cannot provide for basic human needs. Many of the budget holes we see today, e.g., not having the money to adequately support public schools and other public goods, can be traced to flaws in the designs and enforcement of tax codes.

Finally, technology is indisputably a transformative force, but its application does not inherently promote human betterment. The power of technology can be deployed to support predatory activities such as human and drug trafficking. The Internet both democratizes information and facilitates organized crime. This is not just due to flawed law enforcement: the design of technology itself can be a key enabler. Technology can be used for either good or evil, and we must do a lot better at anticipating and mitigating the dangers it presents.

As the Compact has evolved over the last fifteen years, it has operated with a level of detachment and autonomy unlike other UN programs. In retrospect, has this arrangement been a benefit or a disadvantage to the Compact in achieving its goals?

I would say that it has been mostly beneficial. It has saved the Compact not only from bureaucratic overload but also, I believe, from certain death. The Compact's network-based governance structure, with over 90 affiliated but independent country-based Compact Networks under the aegis of a central office (a US incorporated non-profit entity), has been a real strength. This network structure emerged from a series of consultations around the world to search for an optimal governance model. We considered models based on organizations from the Roman Catholic Church to Coca-Cola. The result is a unique creation that attempts to blend the best features from the private sector with the expectations of the multilateral UN. It has provided the flexibility and innovation of private enterprise while adhering to a multi-stakeholder, partnership-based public benefit mission.

This governance structure appears in the Compact's constitutional document, which Secretary-General Kofi Annan signed as one of his last acts. I consider that to be the most important act in the history of the Compact since his speech proposing the Compact in January 1999 at the World Economic Forum. It has not been easy to protect and sustain this unique governance entity vis-à-vis the UN bureaucracy. Maintaining a balance between public and private, as well as global and local, interests is a continuing challenge

Can—and should—the Compact's unique governance structure be replicated elsewhere within the UN system?

It depends. I am frequently invited by UN entities to advise on building program portfolios to engage the private sector. When I do, I find myself asking a number of critical higher-level questions. What do you really want from the private sector? Are you aware of your comparative institutional advantages in relation to what you want from the private sector? Have you identified what exactly the overlap between these two is? Once you have identified the overlap, have you thought about what is the best organizational form for matching your strengths and goals?

The concept of an independent, UN-affiliated foundation with its own Board and Terms of Reference is not easily replicable given the UN's traditional programmatic structure. Its success is tied to "intrapreneurship" committed to, and capable of, creating innovative organizational design. For many, the time and effort to do so is daunting, as is the challenge of implementing a

decentralized program in scores of countries around the world. It took the Compact several years to find the optimal governance that aligns with these multiple objectives

Accountability is vital for achieving credibility and impact. Is the Compact's Communication on Progress (COP)—a requirement for signatories—a credible means for achieving such accountability?

The Creation of the COP a few years after the launch of the Compact was absolutely essential. Companies in the Compact have to disclose their progress toward implementation of the Compact's ten principles. Public reporting is essential to the Compact's integrity and provides a basis on which to remove companies from the list of active endorsers.

My only regret is that it took so long to establish, though I must confess my own caution early in the process. Charting the optimal course—one that was both credible and prescriptive—was the core challenge, one made easier by the Compact's alliance with the Global Reporting Initiative. The process has occasioned heated discussion among companies, civil society, and other stakeholders around how demanding the system should be.

Over the years, more than 5,000 companies, many of them small and medium-size enterprises (SMEs), have been delisted for failure to comply with the COP requirement. For some, it is a question of excessive paperwork. For others, it is the absence of a "disclosure mentality." In some cases, management changes, mergers, and acquisitions, or major corruption issues and scandals, temporarily derail timely submission of a COP. In other cases, a crisis situation will have the opposite effect, spurring rather than weakening the inclination to disclose. As can often be the case with public institutions, an external shock can serve as a wake-up call. But for many SMEs operating in countries where the media is weak, the impetus to initiate or continue a COP is also weak.

Training programs help to some degree. For example, the Spanish Compact Network has offered capacity-building to 800 SMEs. As the practice of disclosure evolves through new concepts like integrated reporting, the Compact must keep pace while achieving a balance between continuity and dynamism, rigor and feasibility, and the resources required to participate in the program versus the value returned to participants. COPs by themselves will not change the world. But they can contribute to a future in which open-source disclosure systems provide companies everywhere with the information and insight essential for building accountable, continuously improving private enterprise.

Skeptics have said that the Compact is little more than public relations. In your view, what have been the most notable, tangible achievements of the Compact so far? Have any studies identified effects on business performance that would not otherwise have occurred in the absence of the Compact?

The Global Compact has been one of the pioneers of modern corporate sustainability. It helped to change mindsets and practices on a truly global scale. It created over 200 resources and guides widely used in many countries and languages and pioneered concepts like "ESG" (Environmental, Social, and Governance), which was coined in our 2004 publication *Who Cares Wins*. We also launched sister initiatives, including PRI (Principles for Responsible Investment) in 2005, PRME (Principles for Responsible Management Education) in 2007, and SSE (Sustainable Stock Exchanges) in 2009, all of which are thriving.

The Global Compact has often been criticized for what it never pretended to be. From the beginning, the Compact was designed as an initiative for learning, dialogue, and action, without making judgements about individual participants. Critics wanted a code with enforcement. However, the UN has neither a mandate nor the resources to follow such a pathway.

The main contribution of the Compact, then, has been shining a light on issues and obliging participants to disclose annual performance changes in these critical areas. In this regard, the Compact is quite unique. While participation is voluntary, once a corporation is in, it must disclose relevant information, or it will be forced out and publicly shamed.

But other critiques have been very helpful, keeping us honest and helping to the Compact to continuously improve its integrity measures. One example is involving non-corporate participants from Local Networks when companies join the program, adding a degree of scrutiny of new members. Improving integrity is an ongoing effort, and I am sure external critique will continue to help in making improvements.

If you were to start over, with the benefit of hindsight, what would you do differently, both organizationally and programmatically?

I think the core strategy and multi-stakeholder governance of the Compact have generally worked well. What I would change is the balance of effort the Compact devotes to the positive and negative sides of business.

It is difficult to navigate a supportive yet constructively critical pathway. In the Compact's case, the inclination to focus on the positive aspects of business performance is understandable—the Compact was designed to be a beacon of integrity and responsibility in business practices. But when such emphasis distracts from the dark realities that the world faces today—such as child labor, human trafficking, and other human rights abuses—we run the risk of compromising the moral authority that the Compact has worked so hard to build. I have regrets sometimes that the Global Compact was not better designed tackle this dark side.

What advice do you have for your successor as the Compact's Executive Director?

Lise King was an early champion of the Compact and has deep insights into the corporate world. The Compact is very lucky to have her. I have no doubt that under her leadership, the Compact will evolve further and the business case will become stronger. When it comes to UN affairs and politics, I am encouraging her to stay above it and not to get drawn into the bureaucratic underworld. It takes courage and a long-term vision to navigate the choppy waters of UN politics.

About the Interviewee



Georg Kell is the founder of the UN Global Compact, the world's largest voluntary corporate sustainability initiative, with 8,000 corporate participants in 160 countries. He led the initiative since its founding in 2000 until his retirement in September 2015. He is currently Vice Chairman of Arabesque Partners, a value-based asset management firm and the world's first ESG quant fund. He started his career as a research fellow in engineering at the Fraunhofer Institute in Berlin and then worked as a financial analyst in various countries in Africa and Asia. He joined the United Nations in 1987. He holds advanced degrees in economics and engineering from the Technical University of Berlin.

About the Publication

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