The big interview

UN Global Compact: financial markets the next big target

In the first of Ethical Corporation's new series of interviews with leaders, Editor Tobias Webb speaks with Georg Kell, executive head of the United Nations Global Compact

It seems appropriate to begin a series of interviews with leaders and company chief executives with Georg Kell, executive head of the United Nations Global Compact. Few corporate citizenship initiatives have generated as much interest from companies, non-governmental organisations and the media.

Founded in 2000 by Kell, a former financial analyst turned UN adviser on trade and development, the Global Compact now has 3,000 members. UN secretary-general Kofi Annan personally pushed its development to draw in business to help tackle global problems, which are broadly outlined in the Compact's ten principles, which signatories should attempt to adhere to. (See box on p36.)

Recent times have been busy for the Compact. In the past few months it has launched a foundation to provide funding and a board to govern its direction, and has set in motion an initiative to try and transform international financial markets on sustainability issues and long term risk.

The foundation

The newly launched fundraising arm may solve a long-standing Global Compact problem: funding. The UN itself – with the equivalent of its annual budget spent every 33 hours by the Pentagon – is notoriously short of cash. The Compact has represented something of an energetic, unflagging microcosm of this over the past half decade, with only a handful of core staff begging and borrowing experts from the likes of GTZ, the German development agency, or other arms of the UN.

Until now the Global Compact office has been funded by a trust fund supported by ten governments. Now, in an effort to be less reliant on governments, the initiative is seeking sustainable core funding from Global Compact participants, says Kell, hence the creation of the new foundation.

The foundation is chaired by the new overall board chairman Sir Mark Moody-Stuart. The idea is to raise $1 million a year, mostly from business, to help the Compact develop tools for members to help them live up to the ten principles and for strengthening local networks, particularly in developing economies.

Is the Compact maturing? "Absolutely," says Kell. The recent changes are to give the Compact "an organisational underpinning to create growth". Kell says a flexible business structure rather than a more top-down traditional bureaucracy works better for the Compact. "We borrowed heavily from the Visa model," he says, referring to the money-transfer system that is used by companies worldwide. He also notes the influence of top NGOs Transparency International and Amnesty International on how the compact is now organising itself.

The Principles for Responsible Investment

The process is an effort to identify and act on the common ground between the goals of institutional investors and the sustainable development objectives of the United Nations. The focus is on the eleven largest capital markets, with a goal of protecting the long term interests of fund beneficiaries.

- Phase One, conducted during 2005, consisted of the development of best-practice principles for responsible investment.
- Phase Two, starting in 2006, will build support and capacity from within the investor and policy-making communities globally.

Source: UNEP FI

Growth strongest in emerging economies

The Compact already has 2,500 corporate participants, 110 of which are S&P global 500 companies and 1,000 "very large corporations". 30% of members are small and medium-sized enterprises. Growth is currently greater in developing countries. Four to five hundred other participants are made up mostly of NGOs, some universities and a few city authorities. About half of Global Compact participants are from outside the OECD.

The Ten Principles of the Global Compact

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.

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 labour;
- Principle 5: the effective abolition of child labour; 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 all forms of corruption, including extortion and bribery.

Source: UN Global Compact

Useful links:

www.unglobalcompact.org

www.unglobalcompact.org/NewAndEvents/recent_publications.html

http://en.wikipedia.org/wiki/UN_Global_Compact

www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html

www.unepfi.org/work_programme/investment/principles/index.html

This is an edited version. For the full interview visit www.ethicalcorp.com

Encouraging leaders, tackling laggards

When it comes to levels of engagement with the ten principles by existing members, "obviously we have leaders and laggards," says Kell. Signatories defined as "non-communicators" and "inactive participants" by the Compact are publicly listed as such.

This is what Kell calls "exercising pressure, a little bit of the stick". Local networks use peer reviews of each other's work to judge progress, Kell says, and one of the objectives of the Compact's local networks is to work collectively together, particularly on areas such as corruption.

The area of laggard member accountability has been one of the major areas of complaints by NGOs about the compact. Groups such as Oxfam have complained that some companies do much less than others and that a tougher line is needed.

The Compact's approach now seems to be something of a compromise between FTSE4Good's approach – the ethical index announces who has failed to make enough policy changes to stay in its index – and the Compact's original need to build up members before gently applying pressure to drive progress.

Kell says that dialogue with NGO critics of the compact "has improved significantly" in the past few years. He believes that the debate over voluntarism versus regulation may be maturing a little.

"I think it is increasingly understood that voluntary initiatives are not a substitute for regulation but a complement. You need both in the real world. Different situations need different approaches. Understanding about that finally seems to be sinking in."

"However, I wouldn't rule out a new wave of backlash in a year or two, these things seem to move in cycles." A change in the US administration, he points out, may mean a refocus on the corporate world from NGOs and politicians.

Institution building

When it comes to business environments in developing nations and local standards and law enforcement, a common complaint from companies is that governments, nationally and locally, often lack both capacity and will to enforce their laws. Kell agrees that companies have a role to play in helping build civil society and governmental capacity outside the NGO sector in such nations. "I think it's unavoidable," he says. A company has a responsibility to "contribute to more robust public institutions".

Pointing to a collaborative future

Business has taken a cautious course in this area since the political turmoil of the 1970s, says Kell. "In today's new world order, business has long gone global and governments have remained local. Some governments do not have the capacity or the will to act in the best interests of their people. Business has to demonstrate greater engagement in building more robust, stable and fair policy frameworks. It is unavoidable."

Big push on the financial markets

The UN's principles for responsible investment in public pension funds were launched in Paris and New York at the end of April. By early May institutional investors controlling more than $4 trillion in assets had signed up to the principles. (See box on p35.) The financial markets are vital to the future of better corporate citizenship, says Kell: "They are the decisive factor."

They "forge a much-needed link between corporate responsibility and decision-making in the financial markets", says Kell. "Long-term investors are now recognising that in an inter-dependent world the price-risk analysis is changing, and unless and until organisations internalise sound principles in their own organisations they are not well prepared to manage risks and opportunities. Financial markets are now adjusting their risk paradigms to take this into account."

Kell considers the launch events as historic; the principles state that environmental, social and governance issues "in today's inter-dependent world", as Kell puts it, are "increasingly important for long-term viability of enterprises". Therefore long-term investors, he says, are taking these factors into account through research and preference setting. "It will fundamentally help to establish the business case," he says. ■