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“Gearing up: why should businesses invest in improving public sector governance?”

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Ladies and Gentlemen,

It is a great privilege to speak to you. I am especially pleased to be here today not least because many of the ideas we put into actions through the UN Global Compact were first born and tested here in the U.K., home to so many great organizations, from both the not-for-profit and business communities.

The topic I was asked to speak on “Gearing up: why should businesses invest in improving public sector governance?” is both important and complex. It is important because public sector shortcomings have long been a key driver of corporate responsibility and because most of the challenges we try to tackle can only be solved if public sector governance improves. It is complex because of the many perspectives it invites. Much depends on where one stands, what one wants to achieve, how we analyze what we do not really know and what we believe could be a viable way forward.

For obvious reasons, I can only reflect on a few aspects of this topic. I will do so by way of drawing on experiences made over the past five years with the Global Compact. I will do this from a global perspective because the topic is relevant for rich and poor countries and people alike at all levels of governance. I will take a pragmatic view while recognizing the importance of equity and fairness, and finally, I assume that

the overriding reason we gather here is to find practical ways to reduce poverty and to safeguard the well being of our children.

There are compelling reasons why business should contribute to the strengthening of public sector capacities. Business cannot thrive if societies fail. It cannot grow if the public sector is lacking capacity or willingness to provide for stability, the rule of the law and incentives that reward entrepreneurship.

Moreover, most of the dilemmas that CR tries to tackle stem from public sector failures. Whether it is complicity in human rights abuses, mistreatment of workers, environmental degradation, corruption or social tensions and violence, the root causes mostly grow out of poor governance and the inability of the public sector to provide frameworks that ensure that decent practices are upheld. The evidence is overwhelming: There are armed conflicts in over a dozen countries, civil war or near civil war conditions in about thirty and, according to Transparency International, corruption is systemic in approximately sixty countries. The resulting conditions cause not only much of what human suffering is about, they also inhibit business growth, increase barriers for investment and undermine market development. CR has real meaning in such conditions. It may or may not be about doing more than the law requires. But this is not the central point. Rather, it is about trying to uphold good performance standards in cases where laws for doing so do not exist or are not applied. Clearly, to the extent that business seeks to grow markets, safeguard investments, reduce risks and costs, the case for investing in public governance appears to be strong.

But, how does business relate to public governance, and what impact can be achieved and how significant is this? These questions are at the heart of what voluntary

initiatives are about. Before exploring them further I wish to recall some general observations regarding voluntary initiatives.

1) Voluntary initiatives do bring about improvements in the lives of many people but they cannot be a substitute for what governments do or do not do. They are a stopgap measure, a pragmatic and sensible way of filling voids. By themselves, they cannot bring about systemic change but they can be instrumental in reinforcing positive trends.

2) It makes a big difference whether or not business acts in a responsible manner and whether it upholds good practices or not. The difference lies not just in the effect practices have on employees, communities and the environment but also the effect on society at large.

3) When it comes to poverty, we need to realize that the presence of business is rarely the problem. Its absence, however, almost always is. Business, it must be recognized, is at the heart of the development process – providing the investment, income and employment that are so desperately needed in so much of the world.

To further explore the topic it is helpful to distinguish between different types of responsible business practices.

First, corporations often substitute for government deficits by supplying public services in areas such as health, education, housing, utilities and community services. They do so either as part of their core business in order to increase productivity and to protect investments and supply chains or through philanthropy outside their sphere of influence, often in order to build and protect image and name. Such activities bring clear benefits for those lucky enough to be employed or to receive services. But it is unclear

whether this contributes to broad-based improvements. The scalability of such activities is clearly limited by the reach of investments and the budget for philanthropy. As self-selective island solutions, their impact on governance is questionable. In fact, they may undermine notions of fairness and equity and weaken public sector development. At the same time, however, if aligned with public sector capacity building they may provide positive stimuli.

Second, corporations as market builders provide important impetus to broader societal change by way of fostering entrepreneurship. Product development at the bottom of the pyramid, growing sustainable business in least developed countries, extending banking and investment know-how for micro credits and public-private partnerships can create positive dynamics that can induce improvements in public governance. Showing how entrepreneurship brings benefits and improvement in the lives of people can help to create a friendlier climate for enterprise development and thus give impetus to a bottom up approach.

Third and perhaps most importantly, the manner in which business conducts its operations deeply affects millions of employees, suppliers, communities, but also has an important signal and demonstration effect on society at large. Consider the following: A major software company conditions the establishment of a subsidiary in a high corruption environment so that all payments to officials are made public and transparent. A major oil company introduces a no-bribe policy throughout its country-wide retail business in a similar environment. A textile firm implements a non-discrimination policy and thereby empowers tens of thousands of women in a society where women are often treated as second class citizens. A major steel company creates awareness about HIV/AIDS for

employees and communities in a country where a health crisis is looming and where the government has not yet acted. A chemical maker ensures the same high environmental standards across all global operations, including in countries where laws for environmental protection are not applied. A major manufacturing company extends training and capacity building to its suppliers to improve quality and thereby upgrades skills and workplace conditions on a large scale.

Clearly, the way corporations conduct their business and what they do within and beyond their sphere of influence is a significant force in the broader change process of societies.

Yet, the overall impact of such actions is small compared to the challenges at hand. As we have shown in the recent study by SustainAbility “Gearing Up”, business solutions by themselves are insufficient. Business can only be part of the solution. Their efforts are significant, to be sure, and efforts need to be made to scale up good solutions to enhance impact and likelihood of contributing to lasting positive change. But unless society at large and those in power in particular are ready to improve public governance, the impact of responsible business practices will not extend far beyond the fences of their operations.

This said, how can business innovations and solutions be scaled up? How can one enhance the probability that good practices will permeate into societies? Much can indeed be done:

- 1) More companies should embrace responsible business practices. The Global Compact is today the world’s largest corporate citizenship initiative with nearly 2,000 participants from over 70 countries. Yet this figure is small when compared with

the more than 60,000 transnational corporations that currently do business in more than one country. To achieve greater scale it is especially important to win over corporations from emerging economies such as China, India, Brazil and Russia, where already much innovation is happening and where the potential for positive change is greatest. It is for these reasons that the Compact is now paying more attention to these economies.

2) To build stronger dynamics, front runners and good performers should be rewarded and laggards and fence sitters should be motivated to join efforts.

3) At the same time, qualitative aspects of voluntary initiatives need to improve and greater accountability needs to be built to enhance impact. Within the Compact we are working on a variety of measures towards that end.

4) Industry-sector approaches are important building blocks to ensure coherence and maximum effectiveness. Initiatives such as the EITI are breaking new grounds and we should build on them while encouraging efforts in other sectors.

5) Responsible business practices should become an integral part of government-led efforts to reduce poverty and to improve governance. A much closer alignment between what governments try to achieve and what business does would greatly enhance impact.

6) The issue of coherence of corporate responsibility needs to be addressed. Companies often speak with several voices and there is the real danger that they take away, for example, through lobbying what they give through voluntary initiatives.

7) We need to have an open mind as to what “governance” means. Institutional innovations, the blending of private competency and public authority may

produce new solutions which should be allowed to test their legitimacy by what they achieve and not be judged by ideologies of the past.

8) Finally, there is much need for research to better understand how exactly the interface between responsible business practices and governance deficits plays out. There is an insufficient understanding on how tipping points can be reached and how best public and private efforts can be paired.

Looking into the future, there are reasons to be optimistic. Corporate responsibility has matured. We are entering a new phase – far beyond the butcher and the baker. The case for human rights, decent workplace conditions, more support for the environment and transparency has been successfully made. Now, the challenge is to get the job done. The emphasis is no longer on the *why*, it is on the *how*. Tremendous efforts are already under way to develop the tools, organizational frameworks and incentives to facilitate implementation. Corporate responsibility is losing its innocence. Business has understood the moral imperative. Now, corporate responsibility is increasingly driven by bottom line considerations as part and parcel of risk management. Financial analysts and asset managers, pension funds and mainstream investors have heard the message and are emphasizing long-range time horizons where these issues become decidedly material and therefore part of good corporate governance.

So long as markets remain open, interdependencies between nations and people will deepen. Civil society organizations, global labour and global business have all learned to transcend national boundaries. As global actors they are uniquely positioned to shape relations and to ensure that markets are rooted in shared values.

I very much hope we have what it takes to create a better future: the belief that it can be done and the courage to act.

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