



World Chronicle

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“ARE UN PRINCIPLES GOOD FOR BUSINESS?”

Three years ago at the World Economic Forum in Davos, Switzerland, UN Secretary-General Kofi Annan challenged business leaders to “embrace, support, and enact a set of core values in the areas of human rights, labour standards and environmental practices.” The response from corporations was overwhelming, and gave birth to the Global Compact: a network of UN offices, companies, governments, labour organisations and civil society groups working to apply universally agreed-upon principles to the conduct of daily business. How has the Global Compact evolved since then? What difference is it making in the lives of ordinary people? What motivates companies to get involved? Can better corporate citizenship become a catalyst for government action on issues of human rights, or HIV/AIDS? In this edition of **World Chronicle**, these questions are explored with the help of Georg Kell, the Executive Head of the Global Compact Office.

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ANNOUNCER: From United Nations Headquarters in New York -- an unedited interview programme about global issues -- this is **World Chronicle**. And here is the host of today's **World Chronicle**.

LITTLEJOHNS: I'm Michael Littlejohns and this is **World Chronicle**.

How can globalization become a force for positive change – helping more people in more places? This, in essence, was the challenge put by the UN Secretary-General, Kofi Annan, to business leaders at the Davos World Economic Forum three years ago. He called on the private sector to “embrace, support, and enact a set of core values in the areas of human rights, labour standards and environmental practices.” Out of this challenge, the Global Compact was born: a network of UN offices, companies, governments, labour organizations and civil society groups working to apply universally agreed upon principles to the conduct of daily business.

Our guest today was one of the chief architects of this initiative. He is Georg Kell, the Executive Head of the Global Compact Office. Joining me to talk to Mr. Kell are Edith Lederer of the *Associated Press*, and Tony Jenkins of *Expresso*. Mr. Kell, welcome to **World Chronicle**.

LITTLEJOHNS: Mr. Kell, what kind of response has there been over the several years since Kofi Annan came up with this idea at Davos? Are companies scrambling to come on board?

KELL: Well, initially, as you know -- as you said -- it was just a speech and nothing but a call to action by the Secretary General, and it was in response to that speech that gradually a whole movement has emerged. Initially, the response was almost overwhelming because business leaders, government people and others have said that is what we need today. Globalization is out of balance. We have made good progress on the economic side to some extent but we have neglected social and environmental concerns. If globalization is to be solidified, and if it is to work, we do need to embed markets in some notion of shared values, and the values the UN has been producing then for decades. As you know, we are celebrating them every five or ten years; what's lacking is implementation. And international business leaders in particular were perceived to be well positioned to act within their own sphere of influence without having to wait for every government to get it right. So the response was overwhelming. It was business leaders who said, “Yes, we have been waiting for this. Now, Mr. Secretary General please design something which allows us to operationalize this great idea.”

LITTLEJOHNS: Globalization has become a very controversial issue, not only in developing countries but in developed countries too, as we have seen in riots and various other protest movements. What is the Global Compact's position on globalization?

KELL: Well, the Secretary General has said on many occasions -- and that is also part of our philosophy -- that market openness, openness in general, is the only viable approach to make improvements on a larger scale. Foreign direct investment today is a major driver of improving standards of living everywhere; no doubt about this. The problem is it's very uneven. Huge parts of the world don't receive any long-term investment. The problem in sub-Saharan Africa for example is not that there is too much investment; there is no investment at all. We should never forget that poverty and exclusion is the result of the absence of business activities and not because of too much. Nevertheless, there is a sense and there is a strong indication that there's an imbalance because if you have just kind of rampant globalization going on, liberalization without any social dimension, you are, of course, running the risk of being unbalanced. And in some parts that definitely has happened. People in the street rightly have asked, "How come the international community stands ready to enforce, for example, intellectual property rights but turns a blind eye when it comes to basic human rights?" Therefore what we need to do is to give, as Kofi Annan said, globalization a human face. We have to find ways, practical ways, to strengthen the social and environmental pillars and this can be done in complement to economic expansion, not in contradiction to. And that is the basic philosophy of the Compact.

LEDERER: Mr. Kell, one of the questions that comes to mind immediately is what kinds of companies are signing up for the Global Compact? Are you getting the major international companies that invest in many countries? Are you getting smaller companies? Are they coming from all areas of the globe?

KELL: Initially the response was mostly coming from Scandinavian countries and European countries. For them, the Global Compact was almost a natural extension of what they perceived as having been doing already for a long time so they saw the Compact as an extension of their business model. But more recently, and over the last two years, we can say with some pride that it's truly very balanced. We have a good set of American companies. We are very strong in China, in India, in Brazil, in South Africa and in other emerging markets. Out of the 700 companies which so far have pledged to make a commitment to work towards the nine principles, about half of them is from what we call OECD countries, and half of them is

from the South with a heavy focus on the big emerging markets, especially China, India and Brazil.

JENKINS: The developed world, the OECD companies that are involved, are involved in the sense of trying to tap in to their knowledge of good corporate governance so that they are in a sense a teaching mechanism. Or are they actually targets in which you are saying “you need to behave better, you need to adopt better practices when you start investing in countries around the world where people are more vulnerable and can’t defend themselves?” Which of those is it?

KELL: The motives are actually many. We recognize at least five of them. One is, for some companies, the Compact just makes business sense. Think of insurance companies or suppliers of environmentally sound products as we call them sometimes. They have an interest that these issues get attention, that we push for their consciousness, so markets are generated. Some companies recognize indeed that with the global production systems, which they have already, they are extremely vulnerable to social disintegration through a backlash to liberalization. And they recognize that the long-term viability of investment is closely tied to social and developmental progress in the respective countries. If a country goes down the drain so to speak, be it for civil war or for other reasons, their long-term investment is lost as well. And the more they are exposed to the world, the greater they are kind of forced to face up to the global challenges out there. So global companies in many ways by virtue of the operations have to have an open mind to the world and what the problems are. Then there is another motive. Many companies for instance investing heavily in China, the single biggest recipient of foreign direct investment after the US with 50 billion dollars a year last year, there foreign companies have an interest that China suppliers, or partners, somehow converge around their own values because, of course, back home at headquarters in the OECD countries activists rightly remind their companies that there are issues with human rights, with labour standards and so on. So there’s an interest in bringing a convergence of values about. Finally, it is certainly also true that embracing universal values can be good for productivity because the more global corporations are, the more diverse their employees are, the greater the demand for some set of shared values within the company. They come from different cultures, from different ethnic or religious backgrounds, so the internal dimension is quite important too. Finally, I wouldn’t rule out there might be also free riders who think that this is an easy goal to improve image and to get some brownie points without doing much. But I can assure...

LITTLEJOHNS: What can you do about that?

KELL: Several things.

LITTLEJOHNS: Have you kicked them out, some of them?

KELL: Yes. We have already taken action in some cases where the purpose of the company has been abused. Very minor so far, only two cases so far, but increasingly those companies who are really serious with the principles and who are internalising them within their own corporation -- and we can talk about this, how they do this, it's a very complex process -- they have an interest that free riders are not spoiling their movement. We have next week an Advisory Council meeting for instance. On our Advisory Council we have business, labour and NGO representatives and one of the big issues is governance and how to make sure that there is no abuse.

JENKINS: Because not all of the problem companies are born in or live in the South, the undeveloped world. I mean I could think of Global Crossing, I could think of WorldCom, Enron. I mean what do they have to teach the Third World? Presumably, not an awful lot?

LITTLEJOHNS: But were these three members of the Global Compact?

KELL: No. You could argue we were lucky in this respect and on that point I do want to bring in an important differentiation. When we talk about illegal behaviour, or fraud, that clearly is a subject that must be taken up by governments and by regulation. The UN can do very little, if anything, on that front.

LEDERER: But what can the Global Compact do to monitor the performance of the companies that actually have signed up?

KELL: We can do several things. On the one hand, we must recognize this is a long-term change process. So there is a lot of facilitation and action going on how the principles are being internalised. We have on our website a few in-depth case studies how companies such as Novartis, or Pearson Group, or Spedpol from Poland, how they are translating this into a really comprehensive process. You know, driving the principles throughout their huge global operations. So there is a huge pressure going on both from within the companies -- because the change agents are empowered to move ahead -- but there is also pressure from the outside world of course, be it from labour unions, civil society and, increasingly, shareholders. The UN itself can do basically only one thing. We can promote a leadership commitment convincing CEOs and the board that the UN values in today's world matter. And there we have achieved a lot already. We have brought human rights, labour rights and environmental issues into boardrooms at the highest level and thereby we ignite and

reinforce big change process. Then we can also build a network. What we are doing now is supporting structural facilitation to translate the principles. All the major business associations which deal with these issues are working with us, from BSR, WBCSD, Prince of Wales, Instituto Ethos. In the Philippines, Institute of Management. They all converge around the nine principles to provide tools and facilitation for management change.

LITTLEJOHNS: Do you have a public blacklist so to speak of corporations that have signed on and then don't live up to their pledges?

KELL: No. It works the other way around. We only can put on our website practices which are good. So the only way it works is that we put the light on so to speak. We promote good examples. Once good examples are identified we put them on our website. So the Compact works through inspiration by identifying examples; how tackling these issues do make business sense in the hope that, over time, doing the right thing becomes an established and dominant business practice. So the Compact is not an enforcement or a code. It doesn't have a stick to punish. We don't have a static benchmark against which we measure. We only can offer the means of identifying practices that work and by the accumulation of practices that work, we help to establish the business case.

LITTLEJOHNS: This is **World Chronicle**. Our guest is Georg Kell, Executive Head of the Global Compact Office.

JENKINS: It seems to me reading through your material that in fact a lot of the most exciting work seems to be happening on the ground amongst smaller companies that are not multinationals based in the North. Perhaps you could give us an example of how this has actually changed business practices on the ground, maybe in South Africa or somewhere?

KELL: Yes. I should have made it very clear that indeed the action happens of course on the ground and not here at UN Headquarters in New York. All we are doing here is basically reinforcing, encouraging, inspiring, sustaining the network.

JENKINS: Yeah, but what I meant is that we might have created the impression that a lot of this is about talking and jawboning the CEOs of multinational corporations in places like New York and London, and in fact from what your office is putting out it seems like a lot of the nitty gritty is actually happening in places that none of us have even heard of maybe.

KELL: Almost all of it, and I can give you a number of examples now. The Compact has been introduced in about 50 countries as of today and the most exciting stuff is indeed happening on the ground level. I'll give you a few examples. Nigeria, for example, a very complicated environment for business. There, integrity pacts have been formed where

business has said we move ahead with good examples, we make transparent all our payments to official institutions and we hope that through setting such examples we also impact positively on public policymaking thereby igniting a nurture circle of reinforcing practices. That has happened already on a large scale in Nigeria for example.

LITTLEJOHNS: But is it working?

KELL: Well, it's all in progress. It is a long, long road. It doesn't happen overnight but there are many such examples already. In Thailand, for example, business leaders have taken up HIV/AIDS as a serious issue, as has the government. And right now the same movement is happening in India where companies recognize that the government isn't moving fast enough and they have a business interest in working on this issue. So these are examples of how business can move ahead without waiting for governments to get everything right. More tricky, in China, we had a couple of very exciting meetings there and we considered it a big success that the issues of human and labour rights are being discussed now quite openly among Chinese business leaders, in cooperation with foreign companies, recognizing that these issues have to be tackled somehow. And there are many and many such examples which pop up from the ground level where our UN developmental programme is very active. There is also a spin-off of this initiating a whole new set of projects on the ground where business is part of the solution. For example, in Angola, Chevron -- typical example -- has given UNDP quite a significant amount of money to do enterprise development and training. Why? Because Chevron recognizes that their investment in Angola is there for the long run, whether they like it or not. It has a life span of 30, 40, 50 years and if there is a problem in the country they would lose everything. So it's in their interest to contribute to broader developmental priorities.

LEDERER: You are operating in 50 countries now, 700 companies. While that's probably an admirable start critics could say it's probably just a drop in the bucket in terms of the number of companies doing business, and certainly there are 140 countries that you are not operating in. What can the United Nations do to actually promote this kind of corporate good citizenship in countries and companies that probably need it the most and have not signed up?

KELL: You are absolutely right. Seven hundred companies out of a number of over 60,000 multinational companies by UNCTAD's estimates is indeed a small figure, although there is a huge leverage affecting the supply chain which we should not underestimate. We have about 200 of the world's biggest companies in our fold as well and

they have a multiplier which is significant. Still, scaling up the initiative remains a huge challenge and what we can do is promoting even more concerted efforts within the UN system, and that is where our core agencies play a very important role. There are four UN agencies involved and a couple of others are about to get involved very soon. We are talking also to the IFC, the World Bank Group, very seriously...

LITTLEJOHNS: IFC? What is that?

KELL: The World Bank Group.

LITTLEJOHNS: International Finance Corporation?

KELL: Yes. So scaling up remains a challenge but don't forget we are still a young initiative. We are actually only two years old and the network has been growing exponentially and our outreach efforts continue to run on high speed so to speak, but the scaling issue remains serious. There's also the scaling up issue not only in terms of numbers but to make sure that through the whole concept of dialogue and learning significant impulses come out that really make a difference on the big picture challenges. The major thing we do there is we offer dialogue which is then replicated on the national level. We offer learning platforms and through these collective efforts where business, labour and civil society come together and find solutions together, we hope to also have an impact on related subjects such as transparency, climate change, work place issues, HIV/AIDS; some of the most important priority issues of today where the collective efforts also have an impact. So it's not just a scaling issue in terms of numbers, horizontally, but also how to get out of the cooperative effort of the different actors.

LITTLEJOHNS: Mr. Kell, you make it sound as if these corporations are on the side of the angels. What about all those scoundrels out there who were doing terrible things not only in this country and other industrialized countries? Tony has identified three of them. But is the Global Compact Office doing anything to expose the excesses of the scoundrels?

KELL: Well, first of all we have to make it very clear that the Compact is designed not to deal with illegal, illicit behaviour per se, which is the purview of member states and falls under their mandatory regulatory approach. By some estimates, 20 percent of global economic transactions fall into the area of illegal behaviour, whether it is drugs or arms or the real dark sides of globalisation you could argue. We, unfortunately, don't cover that dimension. We have, as you know, an office in Vienna but everybody would tell you that unless governments are willing to cooperate more in this field not much can happen. So the Compact is not dealing with these issues. Now, when it comes to gross abuses or real bad behaviour around human

rights, labour or environmental pollution, then there is a lot of dynamics within the movement where participating NGOs, whether it's Oxfam, Amnesty International, or others, where they're putting pressure on the company to change. And we have some great stories to tell if we could make them all public where companies have changed course dramatically because of this pressure.

LITTLEJOHNS: Tony, you want to pick up on that?

JENKINS: Well, I was thinking of how the US government at the moment is running TV commercials about illegal drugs basically saying if you buy marijuana, if you traced where the marijuana has come from, and you follow it back down its path ultimately you are responsible for a family of peasants being massacred somewhere in Mexico or something. And it always strikes me as somewhat ironic because I could think of a number of very legitimate businesses that produce exactly the same effect, whether it's the extraction of oil, or diamonds, or even agricultural crops, sugar or what have you. But it seems to me that you're not basically trying to reform the business world as such, you are not trying to re-invent the wheel, and in fact perhaps I think what I find most revolutionary about this is that it represents a sea change in how the United Nations relates to private business as a whole. I think it's fair to say that for many decades in this Organization there was a suspicion of big business, of capitalism as a whole, and Kofi Annan, maybe one of his most revolutionary changes, has been to say, "No, we can't turn our backs on the business, we got to bring them along." I think maybe this the sharpest point of that change and attitude, isn't it?

KELL: Absolutely. And I do want to make one point on the Compact and its impact in changing business models. I think it has a fundamental impact. Don't forget when we launched this initiative there were probably five companies in the world who would say in their policies and what they're doing that human rights matter for them. I remember the *Wall Street Journal* article when Shell was the first one -- of course they had to give in response to Nigeria. The *Wall Street Journal* declared Shell as nutty on tackling human rights. This is government business, don't get involved. Through the Global Compact we have brought human rights on a large scale into boardrooms. Companies now have dozens of dozens of working groups trying to come to grips with how to deal with human rights violations, how to behave not just in Myanmar but also in other situations. So we have brought human rights, labour issues and environmental issues into boardrooms and into the texture of companies and that is changing the business model fundamentally. It is towards a responsible corporate citizenship model.

JENKINS: Right. But you're not about to abolish greed, are you?

KELL: No, of course not. I mean greed is fine because greed is the basic fundamental source of creating wealth and without business investment there is no prospect for overcoming poverty. Probably the most revolutionary insight from all this is indeed that business growth is probably the most single biggest challenge for overcoming poverty and we know that and we have to face up to that. So what Kofi Annan in essence did, he did away with ideologies on this issue and applied a purely pragmatic angle looking at the world in terms of problems and solutions and what can be done. And, indeed, the recognition that if the UN is to become relevant in the 21st century then we have to learn how to come to grips with business.

LEDERER: One of the things that you have talked about, which I think is also rather revolutionary in UN circles, is that your advisory board includes both labour representatives and NGOs. Could you talk about how important they are in monitoring what's happening and what their input is?

KELL: Labour and civil society have been an integral part from the beginning. They have been advising us on what engagement mechanism to design. Every dialogue we organize they participate in. Their expertise is fundamental to us to understand the motives of business and also to devise the right approaches; to walk the fine line between encouragement on the one hand and on the other hand, making sure that integrity is safeguarded. They are equal partners.

JENKINS: Might this do away with some of the suspicion in labour circles about free trade?

KELL: That is a tough question. I have to add here that in our Advisory Council we are dealing primarily with global labour. There is no national labour involved. This is a global initiative.

LITTLEJOHNS: Mr. Kell, that's all the time we have. Thank you for being with us on this edition of **World Chronicle**.

Our guest has been Georg Kell, Executive Head of the Global Compact Office. He was interviewed by Edith Lederer of the *Associated Press/AP*, and Tony Jenkins of *Expresso*. I am Michael Littlejohns, thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

ANNOUNCER: Transcripts of this programme may be obtained free of charge by sending a self-addressed stamped envelope to **World Chronicle**, United Nations, Room S-827, New York, N.Y., 10017.

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