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The United Nations
and Transnational Corporations

How the UN Global Compact Has Changed the Debate

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"I propose that you, the business leaders gathered in Davos, and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market."

—Kofi Annan at the *World Economic Forum*
in Davos (United Nations, 1999, p. 1)

When former secretary-general Kofi Annan addressed business leaders at the World Economic Forum in Davos in 1999, he not only started to initiate the Global Compact, but also, at the same time, fundamentally redefined the relationship between the private sector and the United Nations (UN) system. After its operational launch in 2000, the Global Compact swiftly emerged as the world's leading corporate responsibility initiative with currently close to 7,000 business and more than 3,000 nonbusiness participants in nearly 140 countries. The Global Compact can be described as a multistakeholder (yet business-led) initiative that enlists corporations in support of ten universal principles as well as

broader UN goals (e.g., the Millennium Development Goals). Participation in the initiative is voluntary and open to large transnational corporations (TNCs)[1] as well as small and medium-sized enterprises (SMEs) from all sectors and regions (Rasche & Kell, 2010).

This chapter explains what the Global Compact is (and what it is not). The first section introduces the basic pillars of the initiative and explores the related historical shift of UN-business relations from confrontation to collaboration. The following section discusses why there is a need for something like a global compact between business and other stakeholders. The discussion highlights the existence of global governance gaps, which are currently not sufficiently addressed through intergovernmental action and hence require the creation of more inclusive policy-making arenas. The next section sets out to revisit the debate around the Global Compact by introducing critics' arguments and relevant counterarguments. The last section looks at the Compact's achievements and also identifies future challenges.

The UN Global Compact: What It Is (and What It Is Not)

From Code to Compact: A Short History of UN-Business Relations

The Global Compact is not the first attempt of the United Nations to deal with TNCs. As the reach of TNCs gained momentum throughout the late 1960s and early 1970s, the UN started to look into their social and economic impact on nations, particularly the developing world (Coleman, 2003). At this time, the UN saw the existence of TNCs largely as a reason for concern, mostly because cross-border economic activities were believed to disadvantage host countries (in many cases developing nations). As a result, the United Nations Economic and Social Council (ECOSOC) formed a commission, which was tasked with developing a code of conduct to regulate and police the behavior of TNCs. However, conflicting political interests slowed down the overall progress on the code. While the United States adopted a pro-business stance arguing against the binding nature of the code, developing nations insisted on the legal enforceability by host and home countries (Feld, 1980; Tesner, 2000). In addition, there was significant disagreement

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[1]Corporations with cross-border operations were initially termed *multinational corporations* within the UN system. The United Nations Economic and Social Council (ECOSOC), however, adopted the term *transnational corporation* in 1974. See also the discussion by Coleman (2003).

about whether authority to implement the code should be delegated to the United Nations. In the end, no agreement could be reached, and the code vanished from the UN agenda by 1994.

There are two important points to notice about the failed attempt to initiate a binding code of conduct: first, the process of code development was driven by intergovernmental negotiations. Other actors relevant to the governance of economic activity (e.g., civil society organizations or unions) did not participate. Second, the code was developed as a regulatory instrument to tame the increasing power of TNCs and hence was seen as an expression of the largely confrontational and openly hostile attitude of the UN toward business. The launch of the Global Compact in 2000 fundamentally shifted UN-business relations. Although the Global Compact is legitimized by a series of intergovernmental resolutions (the latest in 2010: A/RES/64/223), it also includes a variety of other stakeholders and thus reflects a "beyond-state" model of engagement (Coleman, 2003; Thérien & Pouliot, 2006). Moreover, the Global Compact reaches beyond the formerly confrontational attitude and instead emphasizes that a partnership-based approach between the UN and the global business community is more fruitful and promising. It is critical to understand this historical shift of UN-business relations when evaluating the achievements and challenges of the Global Compact. Unlike other corporate responsibility initiatives, the Compact remains embedded in the political and institutional context of the UN system (Rasche, 2009b).

How Does the Global Compact Work?

One way to understand how the Global Compact works is to compare it with other corporate responsibility initiatives. In recent years, an entire new institutional infrastructure for corporate responsibility emerged, containing a variety of (partly competing) voluntary initiatives (Gilbert, Rasche, & Waddock, 2011; Waddock, 2008). (See Waddock on page 51 of this text.) Some of these initiatives aim at monitoring single production facilities (e.g., Social Accountability 8000 or the Fair Labor Association), while yet others provide a framework for disclosing social and environmental information to stakeholders (e.g., the Global Reporting Initiative). The Global Compact does not monitor factories, nor does it define a comprehensive reporting framework (Rasche & Esser, 2006). Instead, it offers businesses the opportunity to voluntarily align their operations and strategies with ten universal principles (see Figure 3.1). Participants are expected to use a variety of engagement mechanisms (e.g., working groups and Local Networks) to initiate dialogue with other stakeholders and to learn from their experiences. Once a business joins the

Figure 3.1   The Ten Principles of the UN Global Compact

Human Rights	Business should support and respect the protection of international human rights; and make sure they are not complicit in human rights abuses.
Labour Rights	Business should uphold the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.
Environment	Business should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	Business should work against all forms of corruption, including extortion and bribery.

Source: http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html

Global Compact, it enters into a continuous improvement process regarding its social and environmental performance.

As the Global Compact does not contain any monitoring mechanisms, participants joining the initiative need to be held accountable for their actions and omissions. Over the years, the Global Compact has taken a variety of actions to establish an accountability framework to protect the integrity of the initiative (Wynhoven & Stausberg, 2010). First, there is a clear logo policy limiting the possibility to use the UN and Global Compact logos in any commercial way. It is also important to understand that the United Nations does not publicly endorse the corporate responsibility practices of Global Compact participants. Hence, the Global Compact is no seal of approval and should not be used in this way. Second, the Global Compact Office has established a complaint procedure allowing stakeholders to report systematic abuse of the initiative's underlying aims. Although the Global Compact will not involve itself in any legal action related to a complaint, it will assist in the resolution of the matter whenever possible and appropriate. Last but not least, all business participants are required to submit an annual Communication on Progress report that outlines their implementation progress. Even though the Compact does not define a reporting framework, it encourages companies to use the well-established Global

Reporting Initiative's GRI G3 Guidelines while compiling their reports. All reports are publicly available on the Global Compact's website (www.unglobalcompact.org), and interested stakeholders are invited to comment on report content. If a company fails to submit a report, it is labeled *noncommunicating*. Business participants that have been noncommunicating for more than one year are permanently delisted from the Global Compact database (Hamid & Johner, 2010). (See Appendix B for details on the Communication on Progress reports.)

While the Global Compact is based on universally valid and hence global principles, implementation of these principles is always embedded in local contexts. Needless to say, these contexts differ significantly in terms of their regulatory environment and socioeconomic conditions. To support the contextualization of the ten principles and to create local spaces for discourse and learning, the Global Compact has launched a variety of so-called Local Networks. Such networks reflect "clusters of participants who come together voluntarily to advance the Global Compact and its Principles at the local level . . . by providing on-the-ground support and capacity-building tied to distinct cultural, economic and linguistic needs" (Whelan, 2010, p. 318). So far, Local Networks have been established in more than 90 countries. These networks are important in two interrelated ways: On the one hand, they take global solutions and best practices downstream for replication, which always requires a certain degree of adaptation (Rasche, 2010). On the other hand, Local Networks can also be used to push innovative local solutions upstream for further dissemination.

How Is the Global Compact Governed?

The governance of the Global Compact *itself* is an important, yet often neglected, topic. Governance in this context refers to how the initiative itself is organized, who is involved in major decisions and strategic direction setting, and how, in general, decision-making powers are allocated (Crane, 2010). There are three guiding principles underlying Global Compact governance. First, the authority to govern is not centralized in a single entity. Rather, governance is decentralized and emerges through the interplay of five entities (i.e., Board, Global Compact Office, Local Networks, Inter-Agency Team, and Donor Group) as well as two convening platforms (i.e., the annual Local Networks Forum and the triennial Leaders Summit; for a detailed discussion, see Wynhoven & Stausberg, 2010). This decentralized way of governance provides the necessary flexibility to adapt the initiative to changes in the socioeconomic and political environment.

Second, governance is based on multistakeholder collaboration. Although the Global Compact is a business-led initiative (as businesses have the primary responsibility for implementation), governance entities such as the Board and

Local Networks include a variety of other stakeholders such as nongovernmental organizations (NGOs), organized labour, and UN representatives. Multistakeholder governance is an important characteristic of many recently emerging corporate responsibility initiatives, as it can be considered a key condition of a *legitimate* involvement of non-state actors into regulatory processes (Rasche & Esser, 2006). In addition, multistakeholder governance can also help to avoid "capture" by any particular group of actors. However, research has also shown that multistakeholder governance processes depend on consensus, which is often hard to reach in practice (Scherer & Palazzo, 2007).

Third, and last, Global Compact governance also considers the initiative's voluntary nature. Contrary to a traditional command-and-control type of governance, the Compact requires participants themselves to endorse any changes to the way the initiative works. Participants are not just on the receiving end of governance, but are empowered to actively shape the design and future functioning of the Compact. Bottom-up communication through Local Networks, as well as the above-mentioned two convening platforms, plays an important role in this context. Empowering participants is essential, since sustained support and participant buy-in are unlikely to occur in an environment where decisions are dictated.

Why Do We Need a Global Compact?

Redrawing the Line Between the State, the Market, and Civil Society

The rise of the global economy and the increasing power and spread of TNCs has created enormous governance challenges. For instance, many companies operate global production networks where they can split their operations and move them to those countries where wages, taxes, and regulations are lowest (Scherer & Palazzo, 2008). As a result, a variety of countries have entered into a "race to the bottom" competing for corporate investments by lowering their regulations. Since the sovereignty of government authorities remains limited to the nation-state context, governance problems resulting from cross-border economic operations cannot be addressed easily. TNCs have been involved (either directly or indirectly) in many of these problems—the cases of sweatshop labour conditions in supply factories (Locke, Amengual, & Mangla, 2009), human rights violations while operating abroad (Clapham, 2006), and cooperation with repressive regimes (Taylor, 2004) are just a few prominent examples.

The Global Compact addresses these global governance gaps, as it is based on the idea that a web of joint universal values (i.e., the ten principles) offers a "moral

compass" to companies (Kell, 2005). Although the initiative does not regulate corporate behavior, it provides firms with a basic idea about what the international community of nation-states regards as universally valid values. The ten principles translate existing UN core conventions, which are aimed at nation-states, into relevant business principles. Because nation-states are often unwilling or unable to enforce these conventions, the Global Compact sidesteps missing enforcement actions by nation-states by dealing with corporations directly. This direct involvement of corporations into governance solutions is even more important if we remind ourselves that the fundamental imbalance in global rule making still prevails. While rules supporting global economic liberalization have become stronger (e.g., the trade regime) and have extended the rights of corporations, rules covering social and environmental problems lag behind (Kell & Ruggie, 1999). All of this is *not* to downplay the importance of governments as the primary implementers of universal values. Voluntary initiatives like the Global Compact can only supplement (but not substitute for) the effective exercise of state authority (Rasche, 2009a).

The Global Compact also reflects changes in the way global governance itself is understood and exercised. Traditionally, global governance arrangements were based exclusively on intergovernmental action, because states reflected the *global public domain*. However, in recent years this global public domain has moved beyond the sphere of the nation-state. On the one hand, NGOs grew significantly in terms of numbers as well as size and increasingly entered the international political sphere. The number of NGOs with consultative status at the UN grew significantly, from 1,041 in 1996 to 3,050 in 2007 (United Nations, 2008). NGOs are increasingly involved in addressing some of the governance gaps mentioned above, often through partnerships with governments, international organizations, and corporations. On the other hand, there has also been a notable increase in *private regulation* through multistakeholder initiatives (Bremer, 2008; Vogel, 2010). Private regulation operates in the domain of soft law, because of the absence of legally binding regulations and a delegation of implementation authority to non-state actors (Abbott & Snidal, 2000). The Global Compact reflects these two developments, as it understands itself as a partnership between multiple stakeholders and hence recognizes the increasing public role of private actors.

The Importance of Voluntary Action

The question of why the Global Compact is needed can also be approached from a different, albeit complementary, angle. For this, we should understand that the main argument *against* the Global Compact is its voluntary and nonbinding nature (see the

discussion below). Yet, the distinction between legally enforceable regulation and voluntary approaches to corporate responsibility introduces an unnecessary dichotomy. Voluntary approaches can produce a variety of positive effects that complement regulation by nation-states. Legal regulation often lags behind the problems it is trying to regulate (e.g., because of rigid administrative processes). Corporate responsibility, however, addresses problems (e.g., climate change) that cannot and should not be postponed until nation-states "get it right." Understood in this way, the Global Compact is needed because it reflects a flexible and pragmatic way to address those omnipresent governance gaps that the rise of the global economy has created.

Another critical point to consider is the role of innovation. Legal regulation not only is reactive, but also prescribes what is *not* to be done. Learning and innovation, both of which are critical in the context of addressing novel governance problems, can hardly be achieved in such an environment. From its inception, the Global Compact has highlighted the pivotal role of learning and innovation while improving corporate responsibility practices (Ruggie, 2002, 2004). The initiative provides an institutionalized space for creating and disseminating innovative responsible business practices, for instance through participants' engagement in issue-specific learning platforms (e.g., on climate change and water sustainability). Learning and dialogue enable consensus-based solutions, which help to secure stakeholder acceptance. Participating in the Global Compact allows for finding practical ways for advancing human rights, labour rights, environmental protection, and anti-corruption in the specific industry and regional contexts that firms face on a day-to-day basis.

Although the Global Compact is a voluntary initiative, firms face a variety of pressures "forcing" (or at least encouraging) them to participate. Perez-Batres, Miller, and Pisani (2011), for instance, find that institutional pressure plays an important role. Their study shows that publicly listed firms show mimetic adoption behavior. Such behavior is based on the belief that *not* copying the actions of peers might compromise a firm's own perceived legitimacy. The role of investors and financial markets is also important. Janney, Dess, and Forlani (2009) find that the decision by publicly listed firms to join the Global Compact leads to cumulative abnormal positive returns in financial markets. In other words, signing up to the Global Compact creates a first positive impression in the eyes of investors. These results are consistent with Amer-Maistriau's (2009) study finding that the Compact's delisting of participants leads to abnormal negative returns in financial markets. It is also widely known that corporations are constantly subject to NGO pressure and hence can use the Global Compact as one way to legitimize their behavior (Centindamar & Husoy, 2007).

The Global Compact and Its Critics: Exploring the Debate

Ever since its operational launch in 2000, the Global Compact has been criticized from various angles. The following paragraphs revisit the three most frequently raised assertions and offer a counterperspective in defense of the Global Compact. This is not to say that all critique is irrelevant or wrong (as various changes to the Global Compact were initiated by critical concerns) but that critics often want the Compact to be something it never intended or pretended to be.

"The Compact Is Not Accountable Due to a Lack of Monitoring"

The first allegation, that the Compact is not accountable because it does not independently monitor and verify compliance with its principles, is probably the most well-known critique (Bigge, 2004; Deva, 2006; Nolan, 2005; Rizvi, 2004). Nolan (2005), for instance, argues that "accountability, or rather the lack of it, is the crucial issue that faces the Global Compact" (p. 462). Critics argue that a lack of monitoring, sanctions, enforceable rules, and independent verification fosters the misuse of the Compact as a marketing tool. In the eyes of these critics, the Compact is a public relations smokescreen without substance that allows powerful TNCs to *bluewash* their damaged image. In other words, they seek to associate their operations with the blue UN flag in order to gain legitimacy. Ultimately, the fear is that such a lack of accountability can lead to adverse selection in that those companies most eager to join are the ones in need of a good public image (Williams, 2004, p. 762).

One cannot and should not criticize the Compact for something it has never pretended or intended to be—a compliance-based mechanism that verifies and measures corporate behavior. From its inception, the initiative was never designed as a seal of approval for participating companies, as certification would require far more resources than are currently available. The Compact instead expects proactive behavior from its participants. Its learning approach is advantageous insofar as a code of conduct (that would be needed for monitoring) is always static and thus does not allow participants to react flexibly to varying environmental circumstances (Ruggie, 2002). Without a doubt, it should be in the enlightened self-interest of the Compact

to prevent free riders from misusing the initiative. The above-mentioned integrity measures were created for exactly this purpose.

Even if desired, monitoring of participants would be nearly impossible, as it requires performance indicators relevant to *all* companies in *all* countries and *all* sectors. Without such measures, a meaningful comparison of monitoring results, and thus the creation of sanctions, is not only impossible but would also weaken the Compact's accountability, because any imposed sanctions would be perceived as arbitrary. Moreover, the Global Compact currently has no political mandate to monitor or verify compliance with its principles. Since the initiative is embedded within the UN system, the establishment of legally binding regulations would require the support of the UN General Assembly, which is unlikely given the current political climate and the history of UN-business relations. In addition, the logistical and financial resources to effectively and efficiently monitor TNCs and their supply chains (let alone SMEs around the world) are simply not available. Given that there are currently over 6,200 business participants, annual (or even biannual) monitoring of corporate behavior would require personal, logistical, and financial resources that are way beyond the Compact's current capacity. It is precisely for this reason that certification initiatives such as SA 8000 award certificates for just *one* production facility but never for an entire corporation and/or supply chain (Gilbert & Rasche, 2007). The addressees of the Compact, however, are entire corporations and not single production facilities.

"The Global Compact Allows Businesses to 'Capture' the UN"

Another allegation is that the Compact opens a window of opportunity for business to "capture" the UN. Zammit (2003), for example, argues that there is a basic inconsistency between the policy interests of developing countries and those promoted by the UN's corporate partners. The fear is that big business will pursue its policy interests within the UN more directly by signing up to initiatives like the Global Compact. Critics are concerned about a break in the UN's traditional, non-business position on economic issues and fear that the institution is adopting a pro-market spin that could, in time, lead to its silent privatization.

Despite widely shared beliefs, the Global Compact is by no means the first, nor the only, attempt to establish partnerships between the UN and business. Almost from its inception, the UN has had partnerships with businesses and business associations. Businesses and NGOs even joined the 51 nations that gathered in San Francisco, California, in 1945 to sign the UN Charter and were *expected* to be part of the solution to foster peace and development. As indicated above, what has changed is the attitude of the UN system toward the inclusion of non-state actors.

UN-business partnerships are neither a new nor exclusive feature of the Global Compact; however, they have increased in number over the last decade. This increase may be due to the fact that many UN agencies have undergone an ideological shift from confrontation to cooperation.

It is also important to understand that it is not the Global Compact that allows corporations to be closer to the agenda of policymakers, but that corporations *are already* political players, quite independently of the Compact. Businesses design and implement social and environmental standards (McIntosh, Thomas, Leipziger, & Coleman, 2003), are involved in peacekeeping (Fort & Schipani, 2002), provide education and healthcare (Williams, 2004), and fight corruption (Cavanagh, 2004). All of these issues are also on the UN agenda. This engagement has not been imposed on TNCs but is necessary since (a) national governments, especially in developing countries, often fail to set a regulative framework under which such issues can be resolved and (b) many of today's problems cannot be solved on a national level at all but need to be addressed globally, for example by *transnational* companies (Scherer, Palazzo, & Baumann, 2006). Under these conditions, collaboration between the UN and business is not only desirable but also needed, since the UN's goals can no longer be achieved in isolation. In a world of growing interdependencies, neglecting and devaluing UN-business partnerships can only come at the price of sticking to existing ideologies.

Collaboration between the UN and the business community is, of course, not without problems. It is not the direct capture of the UN by businesses, but instead the ability of the latter to use the Compact as a means to position a specific idea of what corporate responsibility is about (i.e., learning, *not* regulation) that needs to be watched carefully. As discussed above, learning is a supplement, but not a substitute, for more compliance-based corporate responsibility initiatives as well as national law. For corporations, the UN is particularly attractive in this context as influencing the public understanding of what good corporate responsibility is about requires discursive legitimacy which the UN clearly offers (Levy, 2008; Levy & Prakash, 2003).

"The Global Compact Promotes Vague Principles"

Another criticism pertains to the Compact's lack of clarity with regard to its principles. Deva (2006), for instance, argues that "the language of these principles is so general that insincere corporations can easily circumvent or comply with them without doing anything" (p. 129). Similarly, Bigge (2004) claims that the Compact is surrounded by a lack of precision in content that does not even attempt to clarify its principles for its participants. Murphy (2005) thus concludes that the Compact is at best a minimalist code of corporate conduct.

These critics want the Compact to be a clearly structured code of conduct against which compliance can be measured. However, as already mentioned, the very idea of the Compact is the creation of a long-term learning network that is used by business and nonbusiness participants to share innovative ideas and best practices as to how the ten principles can be implemented. These principles provide a yardstick for the exchange of ideas and are not meant to be a benchmark against which to assess compliance. Overspecified principles could even turn out to be counterproductive, as they would limit the scope of possible solutions right from the beginning. Although regional in its impact, the Global Compact is designed as a global initiative with no restrictions on the size, sector, or region of its participants. The wide variety in corporate size, sector, region, and available resources of participating companies does not allow for the introduction of clear-cut principles. For instance, a "precautionary approach to environmental challenges" has a different meaning for a large TNC operating in the chemical sector, compared with an Indian SME doing business in the IT industry.

Each participant needs to fill the ten principles with contextualized meaning during the process of implementation. The goal must be to reflect the meaning and significance of each principle against the geographic, socioeconomic, and cultural environment that a participant operates in. It is the very idea of the Compact to act as a moral compass for participants: a compass that addresses corporate diversity through a learning-based approach, which allows firms to contextualize the general principles within their respective business environment. The bottom line is that there are a variety of ways to implement the principles. The Compact's values need to be *translated* into action, a task (like any other management task) that can be approached from different angles.

Retrospect and Prospect—Achievements and Challenges

The Global Compact has grown from 50 participants in 2000 to over 8,900 participants in 2011. While this growth rate is an impressive achievement, it has also created the challenge to balance quantitative *and* qualitative growth. The Compact's own annual impact studies reveal that implementation gaps still exist in a variety of contexts (United Nations Global Compact Office, 2010). For instance, corporate responsibility practices often remain limited to headquarters and are not pushed down to subsidiaries and suppliers. The recently announced differentiation of participants in terms of their implementation quality is an important and timely concept in this regard, as it motivates laggards to catch up while publicly rewarding

leading companies. In the future, the Global Compact will need to reconcile two developments: on the one hand, the initiative should not stop growing in terms of participants (as this would impede its reach and impact). On the other hand, the initiative also needs to ensure that more participants do more in support of the ten principles (as this secures sustained legitimacy in the eyes of the wider public).

The Global Compact has also achieved what some other corporate responsibility initiatives miss: a good presence on the local level. The number and reach of Local Networks has grown significantly throughout the last twelve years. It is particularly noteworthy that Local Networks exist in some of the key emerging economies, such as China and India, as well as in the developing world (Whelan, 2010). The network-based character of the initiative created two advantages over time: First, network-based governance generated the necessary flexibility to reconcile abstract global principles with local realities. Second, network-based governance also allowed for adopting a risk-minimization strategy. Since networks are only loosely coupled, weak performing networks do not negatively influence leading networks. The key challenge for the future will be to maintain the loosely coupled nature of networks, while increasing inter-network collaboration and coordination. More coordination and collaboration among networks would increase the Compact's ability to address governance challenges transcending the borders of sovereign nation-states.

Another, and often neglected, achievement of the Global Compact is its contribution to a silent reform of the UN system (Kell, Slaughter, & Hale, 2007). Shortly after its launch, the Compact was lauded for reflecting "the most creative reinvention" of the UN system to date (Christian Science Monitor, 2000). It is widely known and accepted that the UN reflects a rather hierarchical system following a bureaucratic way of organization. Flexibility and innovation, which are needed in today's swiftly moving political and economic context, are hard to sustain in such an environment. The decentralized network-based governance structure, involving UN agencies, businesses, and other non-state actors, has already created a space for innovation and experimentation. The Compact's underlying idea of creating change by empowering actors and creating shared incentives (rather than mandating change through hierarchical control) could be an important building block of UN reform. Given that UN core agencies are increasingly cooperating with businesses and civil society organizations, such a reform would be both necessary and timely.

Looking beyond the Global Compact, the biggest challenge will be to start rethinking management itself. Renowned management thinker Peter Drucker (1909–2005) once said that "management is doing things right; leadership is doing the right things." There is no doubt that to change present business practices we need both management *and* leadership. We need inspiring leaders who fundamentally rethink

existing business models and align them with the changing economic realities. And we need managers who turn this vision into reality by developing and implementing new business practices. This, however, requires a different way of thinking and, as a consequence, a new set of leadership skills. Most importantly, managers need to look at the global economy and their business practices from a systems perspective. The global economy affects and is affected by many systems—for instance, but not limited to, the natural environment, financial markets, political leadership, civil society, and business practices on the ground. These systems interact, often in unpredictable ways. The Global Compact is one very practical way to open up an organization for systems thinking. If taken seriously, participation can help firms to better understand and manage how systems work and interrelate. In this sense, we should look at the Compact not only as one among many other corporate responsibility initiatives, but also, and maybe most of all, as a way of learning how to see business differently.

If we look up the word *compact* in *Webster's Third New International Dictionary*, we are told that it reflects "an agreement, understanding, or covenant between two or more parties" echoing "a degree of strength." The Global Compact's underlying agreement between the UN system, the global business community, and civil society has emerged significantly ever since its operational launch. The main challenge will be to sustain the created dynamics by further strengthening and deepening links among existing and new participants.

Study/Discussion Questions

1. Why did earlier attempts by the UN to create a more binding code of conduct for business fail?

2. According to the author, what exactly is the UN Global Compact?

3. How does the Compact fit the adage "Think global, act local"?

4. How does the Compact address global governance gaps?

5. What are the three guiding principles underlying the governance of the UN Global Compact?

6. What is *bluewashing*?

7. What are the three major criticisms of the Global Compact? Do you agree or disagree?

8. What is the meaning for the author behind the quote by famed management guru Peter Drucker (1909–2005) who said that "management is doing things right; leadership is doing the right things"?

9. What challenges does the UN Global Compact face? How do you think the UN might address them?

10. What might be examples of translating the principles into action?

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