

# The United Nations Global Compact as a Global Governance Mechanism of Corporate Social Responsibility and Sustainable Development

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**Abstract:** The study analyzes the United Nations Global Compact initiative (UNGC) as an attempt to develop a global governance mechanism to address the issues of corporate social responsibility (CSR) at the global level. The UN Global Compact is one of the most ambitious attempts to create a global governance system of business-society relations. Reflecting the Sustainable Development Goals at the corporate level, it strives to create a flexible self-regulating CSR system in such fields as human rights, labor relations, environmental protection, and anti-corruption. The key advantage of the GC as a global governance mechanism is its reliance on institutions and reputation of the UN as a leading platform for international dialogue.

## 1 INTRODUCTION

The United Nations Global Compact (UNGC) is an international initiative based on the voluntary participation and commitment of the companies' management to follow common principles and goals ensuring the sustainable development objectives. The initiative was defined and proposed by UN Secretary-General Kofi Annan in 1999. At the World Economic Forum in Davos, dedicated to the Responsible globality issue, he pointed out the dangers that accompany the globalization processes: "Globalization is a fact of life. But I believe we have underestimated its fragility. The problem is this. The spread of markets outpaces the ability of societies and their political systems to adjust to them, let alone to guide the course they take. History teaches us that such an imbalance between the economic, social and political realms can never be sustained for very long" (Annan, 1999). Kofi Annan claimed the need to give the global market a "human face" and called for an agreement on common values and principles that would make it possible to solve this task. As J. Post noted, "K. Annan has brought the issue to a head: business cannot expect to benefit from global markets

without recognizing – and accepting – its social and political responsibility" (Post, 2012, pp. 54-55).

In July 2000, the official start was given to the initiative at the UN headquarters. The agreement is based on 10 principles governing the companies' activities in such fields as human rights, labor relations, environmental protection, and anti-corruption. The treaty's official mission is "to mobilize a global movement of sustainable companies and stakeholders to create the world we want" ([www.unglobalcompact.org/what-is-gc/mission](http://www.unglobalcompact.org/what-is-gc/mission)). With this aim, the Global Compact encourages companies to:

- Do business responsibly by aligning their strategies and operations with Ten Principles of UNGC;
- Take strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals (Ibid.)

From a theoretical point of view, the UNGC can be seen as a global governance initiative in the field of global corporate social responsibility (Fritsch, 2008; Post, 2012; Voegtlin and Pless, 2014). The conception of global governance proposes a view on addressing global issues radically different from that

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of the international relations perspective. Instead of relying upon the agreements and treaties between governments, it acknowledges the role of other influential actors such as businesses, especially transnational corporations (TNCs), non-governmental organizations (NGOs), trade unions, social movements, and others. As a result, the global governance theory proposes a way of addressing global issues on the basis of multilateral, multilevel, voluntary-based and largely horizontal cooperation, which is able to perform key governmental functions (e.g. establishing norms and principles, goal setting, policy development and implementation, conflict resolution or control) without tight regulation and hierarchical structures (Weiss, 2013; Zürn, 2018).

Corporate Social Responsibility (CSR) is one of global issues, in which global governance appears to be a promising and effective approach. With the growing impact of TNCs on world economy, social development and environment, and the gaps in national regulations, developing effective self-regulatory initiatives is crucial for sustainable development. The UNGC pretends to be the most influential and large-scale attempt to develop a global governance mechanism for global CSR. The present study analyses the contemporary state of the initiative and its actual and potential ability to function as a global governance mechanism.

## 2 METHOD

The study analyses the content and results of the UNGC from a theoretical perspective of global governance (Weiss, 2013; Zürn, 2018). We use the methods of historical and comparative analysis as well as statistical data and documentation from the official UNGC resources ([www.unglobalcompact.org](http://www.unglobalcompact.org)) to describe the normative principles underlying the initiative, key actors involved in their spreading and implementation, and the institutions through which it functions as a global governance mechanism.

## 3 RESULTS

The normative core of the UN Global Compact consists of 10 principles, whose promotion and implementation are considered to be the main goal of all the participants' activities. Initially, the Treaty included nine principles related to three areas of concern: human rights, labor relations, and

environmental protection and sustainable development. These principles were defined based on existing supreme-level international legal documents: the Universal Declaration of Human Rights, the Declaration of the International Labour Organization on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development.

According to G. Kell and J. Ruggie (1999, p.104), regulatory areas and specific principles were selected based on the fact that they were most relevant at the corporate level, while meeting the global rulemaking goals and are based on existing international agreements at the same time, with many of which being binding. A little later, in 2004, another principle was included in the Global Compact, which addresses issues of financial integrity and anti-corruption. The source of this principle was another existing international document – the UN Convention against Corruption. Thus, the current normative basis of the UNGC includes the following ten principles ([www.globalcompact.ru/about/ten-principles](http://www.globalcompact.ru/about/ten-principles)):

1. *Businesses should support and respect the protection of internationally proclaimed human rights.*
2. *Businesses should make sure that they are not complicit in human rights abuses.*
3. *Businesses should uphold the freedom of association and the effective recognition of the right of collective bargaining.*
4. *Businesses support the elimination of all forms of forced and compulsory labor.*
5. *Businesses should support the effective abolition of child labor.*
6. *Businesses should support the elimination of discrimination in respect of employment and occupation.*
7. *Businesses should support a precautionary approach to environmental changes.*
8. *Businesses should undertake initiatives to promote greater environmental responsibility.*
9. *Businesses should encourage the development and diffusion of environmentally friendly technologies.*
10. *Businesses should work against corruption in all its forms, including extortion and bribery.*

The ten principles forming the normative core of the Global Compact are not reduced to the extremely general formulations outlined above. For each principle, there is a detailed definition of what is meant by it, how a business should implement it in its activities, and why it may be important for it.

Participation in the UNGC is voluntary and is based on commitment of the organization's management to comply with the Treaty principles and

report on the progress on an annual basis. Companies joining the UNGC sign a letter addressed to the Secretary-General containing their commitment to the ten principles of the Treaty and their commitment to integrate them into their strategy and operations and undertaking to send an annual Communication on Progress (CoP), which describes the actions taken by the company to implement the principles. In turn, when applying for membership, the non-profit organizations also make commitments to comply with the UNGC principles and to be ready to send a Communication on Engagement (CoE) on a regular basis (every 2 years), describing the organization's activity aimed at promoting the UNGC principles.

The UNGC participants are primarily commercial companies, both large and small, as well as non-governmental organizations, representatives of authorities and the UN structures. As of early 2021, the number of participants exceeds 13 thousand, making the UNGC the largest CSR initiative. In early 2021, more than 12 thousand commercial companies and more than 500 business associations have joined the UN GC initiative worldwide ([www.unglobalcompact.org/interactive](http://www.unglobalcompact.org/interactive)). About 90% of them remain active. The dynamics of the joined participants number remains steadily positive. In 2000, the initiative was launched with 44 participants registered; in 2005 there were more than 2.2 thousand of them, and in 2010 their number exceed 6.3 thousand, in 2015 – 8.4 thousand, and in 2019 – 10.5 thousand (UNGC, 2020, p.27). The local GC networks are present on every continent, with their number reaching 68, which makes it possible to talk about the global coverage of the GC system. According to the annual progress report, more than 77 million people work in the organizations participating in the GC (Ibid.)

According to the UNGC report, in 2020 more than half (54%) of the corporations from the largest global companies list comprised by the Financial Times participated in the initiative (Ibid.) We analyzed the 2020 ranking of the world's largest companies, which is regularly published by Fortune magazine and takes such indicators into account as the revenue and profit volume and dynamics, asset value, and the staff number (Fortune, 2020). The results roughly correspond to this data. Thus, out of 50 largest TNCs from the Fortune Global-500 list (by the annual revenue amount), 19 corporations have joined the Global Compact, including Cinopec, Royal Dutch Shell, BP, Daimler, AT&T, Total, Ford Motor, General Motors, Glencore, Microsoft, and others. A few other large TNCs are represented by their regional divisions or subsidiaries only. In particular,

this is the case of Walmart retailer, holding the top line in the rating, as well as of the Brazilian division of China Construction Bank. More than half of the top 50 TNCs has not joined the initiative. These include the largest Internet companies (Amazon, Alphabet), high-tech corporations Samsung, Volkswagen, and Honda, resource corporations CNCP, Saudi Aramco, and Exxon Mobil, financial corporations, and medical sector TNCs.

In terms of institutional arrangement and governance, the UNGC initiative is neither a hierarchical structure nor an organization with a clearly defined structure. It is a mechanism for organizing multilateral cooperation and promoting 10 Principles, which is based on the network principle. However, the initiative features a set of tools defining the organization and administration process of such interaction. From 2002 to 2004, the initiative was controlled by the Advisory Board consisting of 20 representatives of business, governmental, and non-governmental organizations, appointed directly by the UN Secretary-General. The Advisory Board activities contributed to the development of a new specific area related to combating corruption and defining the corresponding principle.

With the GC expansion and development, a need for new organizational mechanisms arose to ensure achievement of the Treaty objectives. In 2005, the Global Compact governance framework was developed, providing for establishing several governing bodies, including the UN Global Compact Council chaired by the UN Secretary-General, which acts as a strategic and political body specifying the main directions for the initiative development. In 2017, the governing structure was updated in compliance with the new Strategy and following intense consulting with stakeholders. The operational governance of the initiative is performed by the UN GC Management (Main Office) currently headed by S. Ojiambo.

Aimed at financing the UNGC activities, the Global Compact Fund was established in 2006, which provides the required financial, operational, and software support for the initiative activities. The Fund receives finance from the contributions from commercial companies participating in the UN Global Compact; in 2017, the number of key donors exceeded 1.5 thousand ([www.unglobalcompact.org/about/finances](http://www.unglobalcompact.org/about/finances)).

Besides, financial support is provided by government contributions through a specially established trust fund. The key donor states form a Government Group that currently includes China, Denmark, Finland, France, Germany, Italy, the

Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom. The Global Compact does not receive any funds from the UN budget.

Local networks play a special role in the UNGC structure, which include national or regional associations of the parties to the Treaty, established to promote its principles in particular geographical regions. Such networks are self-governing structures that can nominate candidates for being elected to the GC Council and participate in activities of the regional and global network councils.

The most important milestones of the initiative development over the recent decades are related to its integration with the UN sustainable development activities. In 2015, the UN General Assembly approved a key strategic document on sustainable development – the Sustainable Development Goals (SDGs) (United Nations, 2015). It is an ambitious 15-year action plan aimed at poverty eradication and creating conditions for sustainable development. The Plan covers 17 specific goals, which the Member States commit to make efforts for. The document contains such goals as poverty and hunger eradication, healthy lifestyle, high-quality education, gender equality, decent employment and economic growth, responsible consumption and production, war on climate change, etc.

Adoption of the Plan laid the basis for including the SDGs as an important element of the Global Compact. Since most of the goals cannot be achieved without active and responsible participation of business, the UN considers the UNGC as a mechanism for involving the corporate sector in the implementation of this plan, with the reference to the SDGs becoming a part of the initiative's official mission.

A new role of the UN Global Compact was enshrined in the Global Strategy 2020 adopted in 2017 (UNGC, 2017). This political document outlines the key steps required to enable all the parties to the Compact to develop an SDG-consistent mindset and organizational culture. The strategy involves developing the coordination between the participants, responsible business practices, and building a strong brand of the UNGC as a global "platform of platforms" for accumulating and spreading the business experience compliant with the key principles of the treaty. According to the developers, the Strategy was expected to result in forming a global movement in the SDGs field among the world's leading companies.

## 4 DISCUSSION

To understand whether the UN Global Compact performs the function of the global governance mechanism, we must evaluate its normative principles, actors and institutions in terms of their ability to balance the interests of business and society at the global scale, and on the principles of multilateral, multilevel and largely horizontal cooperation.

As regards the normative core of the UNGC, we must conclude that it only partially corresponds to the goals of global CSR. This is especially evident when comparing the Ten Principles with other major initiatives in CSR, such as Global Reporting Initiative or ISO 26000 international standard (GRI & ISO, 2014). The four areas covered by the Ten Principles, are all present in other CSR initiatives and are considered as important indeed. However, there are several other areas of responsibility, important for both society and corporations' strategic interests, which are not reflected in the UNGC normative core. Particularly, relations with customers and local communities are increasingly important for companies – and this is properly reflected in the survey among the UNGC participants conducted by the initiative officials (UNGC & Accenture Strategy, 2019, p.25). The fact that some of the strategically important responsibilities issues are not reflected in the normative system of the Global Compact, objectively reduces its potential as a mechanism of global governance in CSR.

As regards the actors' composition and dynamics, several observations are essential. The positive dynamics and geography of the UNGC membership indicate a gradually increasing coverage of this initiative and, accordingly, its capability of acting as a mechanism of governing the relations between business and society on the global scale. At the same time, when assessing the observed results, it is necessary to consider not only absolute, but relative statistics as well. Currently, the number of active companies-participants and signatories of the UNGC is around 12 thousand. At the same time, more than 100 thousand companies are registered in Russia alone – disregarding their branches, as well as small businesses, financial organizations, budget and government agencies (Rosstat, 2020). Given that only 50 organizations represent Russian business in the GC, including business associations, the commercial sector coverage is less than 0.05%. It is doubtful that the system, covering such a small share of the corporate sector, can become an effective mechanism



for balancing the interests of business and society and promote the CSR principles dissemination.

It should also be kept in mind that the Global Compact was launched more than 20 years ago and is supported by the largest international organization, whose status enables it to be treated as the main contender for the role of the global governance moderator. Despite this fact and the positive dynamics, the total number of enterprises involved remains insignificant across the globe, thus, objectively limiting the possibility of using even those simplest mechanisms being applied within the GC for shaping the corporate policies and activities in compliance with the CSR principles.

At the same time, when assessing the results of the UNGC activities by the number of organizations joined, it is necessary to consider their different scales of operation. It is obvious that large corporations are more influential regarding the general nature of the relations between business and society on the global scale, adoption and dissemination of certain CSR practices and standards. Therefore, participation of large TNCs is a more meaningful indicator. Even though many of the world's largest TNCs have refused to join the UNGC so far, their average involvement in the initiative is much higher than in other business categories, including large-scale ones.

The fact that a large number of leading TNCs that set the industry standards and rules of market behavior participate in the Global Compact is a factor contributing to adoption of its principles, at least declaratively. This promotes achievement of the UNGC goals, regardless of the extent, to which these companies de facto follow the declared principles in their activities.

Although the dominance of TNCs in UNGC is important for the promotion of its principles, its side effect is devaluation of other actors participating in the initiative or affected by it. Many types of actors including small businesses, NGOs, municipalities and academic sector are underrepresented in UNGC and especially in its governing bodies responsible for agenda setting and policy development. Such disbalances contradict the very idea of global governance as multilateral, network-based mechanism, where different voices can be heard and decisions are made on consensus and shared values.

Finally, the UNGC should be evaluated in terms of its institutions and their ability to ensure the principles of global governance. The very fact that the company participates in the Global Compact cannot be treated as an unambiguous evidence of its compliance with its principles in practice and with the CSR concept in its everyday activities. Nevertheless,

the decision to participate in the UNGC system and make certain commitments is an indirect indicator of companies' recognition of CSR as a strategically important field of activity.

In terms of achieving the Global Compact goals, regular reporting is more important than a formal declaration of commitment to the principles (Amer-Maistriau, 2009). Unlike the latter, it requires some effort from the company to justify how its policies have changed and contributed to sustainable development. Regardless of the extent to which the information contained in the progress report is true, participation in the preparation and reporting means involvement in governance, even in its simplest and most passive forms.

The Global Compact institutional infrastructure creates conditions for interaction between various groups of actors (large and small businesses, non-profit organizations, governments, and international organizations) at various levels: from local (national) networks to global ones. Within the UNGC system, certain mechanisms have been created for addressing a wide range of management tasks: defining the global CSR principles and goals, transferring knowledge, and exchanging experience, adopting voluntary commitments, and publishing reports, cooperating, and coordinating various stakeholders' opinions and activities. By operating within the UN system, the initiative gains high-quality management and organizational support, access to the decision-making system for supreme global political decisions, a high expertise level, and strong brand.

At the same time, the UNGC has important system limitations. Stakeholders have unequal opportunities to represent their interests and participate in policymaking. The existing system promotes preferential representation of TNCs and the UN to the detriment of many other actors (SMEs, local NGOs, employees and trade unions, the research community, consumers, local communities). Such unequal influence and actors' capabilities endanger provision of the UNGC system with unbiased expertise and assessments, as well as shifting institutional mechanisms in favor of the most influential actors' interests. Most of the UNGC participants are deprived of real opportunities to participate in forming the regulatory core of the initiative and influence the programs and recommendations content. The existence of serious structural constraints creates prerequisites for reducing the UNGC effectiveness and efficiency.

## 5 CONCLUSIONS

The UN Global Compact is one of the most ambitious attempts to create a global governance system of business-society relations. Reflecting the Sustainable Development Goals at the corporate level, it strives to create a flexible self-regulating CSR system in such fields as human rights, labor relations, environmental protection, and anti-corruption. The key advantage of the UNGC as a global governance mechanism is its reliance on institutions and reputation of the UN as a leading platform for international dialogue.

In many important aspects UNGC corresponds to the idea of global governance. It has a consensual normative foundation, voluntary participation of key stakeholders, the independent local networks ensures the multilevel coordination and importance of horizontal interactions, and it relies mainly upon 'soft' governance methods. However, it also has several important structural limitations. They include unequal representation of stakeholders with the dominance of TNCs and UN-related structures, limited coverage of the CSR issues by the Ten Principles, a number of important governance functions (implementation of the UNGC principles and policies, assessment and monitoring of compliance with these principles, moderation of stakeholder relations, conflict resolution) not being provided by the existing mechanisms.

Despite these limitations, UNGC is an important attempt to develop a global governance mechanism to address the increasingly important issues of global CSR. Its basic institutional infrastructure and steadily growing population of participating companies and organizations create opportunities for further success and the promise to develop a truly self-regulatory system.

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