

TEACHING NOTE

The UN Global Compact: Advancing or Impeding Corporate Sustainability?

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CASE SYNOPSIS

The case discusses the birth and maturing of the world's largest voluntary initiative for corporate responsibility and sustainability: The United Nations Global Compact (UNGC). In just a few years from its creation in 2000, the UNGC made impressive progress. By 2018, more than 9,800 companies from 163 countries had signed up to the initiative. The UNGC managed to establish local networks (i.e. clusters of participants) in nearly 70 countries, and many praised the initiative for transforming the corporate sustainability movement. However, there were also many problems. Until 2018, the UNGC had to expel more than 8,000 firms, because they didn't meet the minimum participation requirement: to submit an annual report that outlines implementation progress. This reinforced the view of critics who had long argued that the initiative lacked "teeth" and that it rather impeded progress in the area of corporate sustainability.

By telling the story of the UNGC, the case introduces students to two key challenges that the initiative faces: (1) how should UNGC management deal with the extraordinary high number of participants that leave the initiative because they did not submit the required annual progress report and (2) how should UNGC management balance the quantitative growth of the initiative (which was needed to show its relevance) with the need for more qualitative engagement of participants.

EDUCATIONAL OBJECTIVES

The case is designed as an integrative case that is taught in the course "Managing Sustainable Corporations" in the Full-Time MBA Program at Copenhagen Business School. Its scope is intentionally broad so that students can discuss (a) the UNGC as an initiative (with its advantages and drawbacks), (b) the actions of firms that have signed up to the initiative, and (c) the evolution of the environment surrounding corporate sustainability from 2000 until 2018. The balance between a *participant focus* and a focus on the *initiative itself* is helpful to introduce students to different perspectives on sustainability. More specifically, the educational objectives of the case can be grouped into four categories:

1. **Strategy:** The case makes students aware of the UNGC's basic dilemma: quantitative versus qualitative growth. It allows students to discuss in what ways the initiative can address the high number of delisted participants. This discussion is of fundamental importance to the UNGC's overall strategic positioning. Hence, students can debate the strategic direction of a multi-stakeholder initiative and can also compare to what extent "corporate strategy tools" (e.g., differentiation) apply in a non-corporate context.
2. **Leadership:** The case introduces students to a number of leadership challenges (e.g., how to respond to the vision of former UN Secretary-General Ban of having 20,000 UNGC participants by 2020) that occur when spearheading a global multi-stakeholder initiative, and allows students to contrast these challenges with those of corporations.
3. **Standards for Sustainability:** The case allows students to debate the meaningfulness of different regulatory options in support of corporate sustainability. The UNGC reflects a rather "weak" solution – an initiative without monitoring and certification. Other voluntary standards in support of corporate sustainability adopted a different approach (e.g., requiring firms to certify their suppliers). Students learn to see advantages and disadvantages of different types of standards for corporate sustainability; they can also debate the extent to which these different standards can potentially succeed in achieving corporate change.
4. **Contextual Nature of Corporate Sustainability:** The case can also be used to show the contextual nature of corporate sustainability. For instance, it highlights that SMEs and larger firms differ in a number of ways (e.g., in terms of the resources they can devote to UNGC implementation). One conclusion from the case can be that sustainability standards need to be mindful about the diverse set of participants that they can potentially attract.

SUGGESTED ASSIGNMENT QUESTIONS

1. In 2000, Kofi Annan stated that "The angels do not need our help" when being asked by a critical journalist why firms like Nike could join the UNGC. Do you think it is a good idea for the UN to team up with companies that at least some perceive as "evil"? Why/Why not?

2. How should the UNGC deal with the high number of delistings?

3. In what ways can the UNGC balance growth in terms of quantity of participants and quality of participation, especially when considering the nature of the initiative, its ambitions, and its history?

4. How do you assess the long-standing critique of NGOs that companies “bluewash” their operations by joining the UNGC? Has the UNGC done enough to strengthen its accountability over time?

DISCUSSION PLAN AND ANALYSIS (Assuming a 90 Minute Class)

OPENING DISCUSSION (5 MINUTES)

The discussion can be structured around the assignment questions. Before proceeding to an analysis of the questions, the discussion can be opened by asking students:

What do you consider to be the single most important challenge for the UNGC?

This forces students to prioritize and to think about what kind of challenges are embedded into the case. Probably students will mention that the high rate of delistings is the key challenge, and you can use this as a springboard to briefly discuss the difficulties that surround multi-stakeholder initiatives for corporate sustainability. Students may also come up with one of the following answers: (1) the quick growth is a challenge to the initiative, (2) its relationship with the UN is both an opportunity but also a challenge (as it reduces the scope for strategic actions), (3) the continued critique by NGOs that the initiative only has minimal impact on corporate practices, and (4) the challenge to adopt an adequate organizational structure that enables further growth but also builds a robust link between the UNGC Office in New York and the many local networks around the world.

NATURE OF INITIATIVE (15 MINUTES)

You can then turn to the first assignment question:

In 2000, Kofi Annan stated that “The angels do not need our help” when being asked by a critical journalist why firms like Nike Inc. could join the UNGC. Do you think it is a good idea for the UN to team up with companies that some perceive as “evil”? Why / Why not?

Kofi Annan’s response was an important one, as it nicely summarizes the core idea of the UNGC. Usually, at least some students question whether the UN (as a very legitimate international organization) should publicly partner with firms that are known for having a weak corporate sustainability track record – Nike Inc. being just one example (you can also point to other controversial participants like Shell, BP, Petrobras). Try to work out the different perspectives. Students who question whether the UN should partner with controversial firms usually point out (a) that the legitimacy of the UN needs to be protected, (b) that there is a risk that the UN as a public and intergovernmental organization is “captured” by private actors who often have different interests, and (c) that the UN needs to remain as independent as possible.

Students who are more in support of Annan’s perspective usually stress the following points (which are all highlighted in the case):

- The UN cannot achieve its agenda in total isolation; it needs to partner with companies to get access to resources (financial and non-financial). If students are interested, you can guide them to read Annan’s speech that proposed the UNGC, which was given at the World Economic Forum in Davis in 1999 (see link under Further Resources below).
- The UNGC aims at learning, dialogue, and partnership and not compliance. It was never designed as a code of conduct to measure corporate actions against. You can point to the historical difficulties of regulating private actors out of the UN; this basically shows that a stricter regulatory approach would not have found much support within the UN.
- The UNGC is not designed as a “seal of approval.” The UNGC is not a label (like e.g. the FSC), and hence “evil” firms’ misuse of the initiative is limited. You can guide students to the UNGC logo policy: <https://www.unglobalcompact.org/participation/getting-started/brand-guidelines>

It is a good idea to emphasize that both perspectives on the UNGC (i.e. those who support Annan's vision and those who question it) correspond to different views on how corporate sustainability should function. Some believe that learning, dialogue and partnership can make a difference, while others do not see the relevance of such a model and believe that firms will not "walk their talk" unless they are forced to do so via legal regulation or at least some sort of verification system. You can use this debate as a springboard for the second question, as some students will argue that the high number of delisted firms shows that the learning-based model does not function.

HIGH NUMBER OF DELISTED PARTICIPANTS (25 MINUTES)

Remind students of the scale of delistings (Exhibit 3 in the case shows the increase in delistings). Before analysing how the UNGC should respond to the delistings, it is a good idea to ask:

Why do so many firms leave the UNGC by accepting to be delisted?

It is important to point out that delistings do not happen "accidentally" (some students may say that firms simply forgot to submit the report). Participants know that they are delisted and it can thus be assumed that it is a deliberate decision. The UNGC Office sends multiple warnings and reminders to participants before they are delisted. You can also point out that the requirements for a COP report are very low, and that it takes only limited efforts by a firm to produce such a document (see the criteria that are listed in the case on the levels of reporting).

Students usually point to a mixture of the following reasons when debating why firms accept to be delisted:

- **Value Proposition:** The UNGC's value proposition may not be strong enough, or it may only work for selected companies. You can use this comment to discuss what value different types of firms can get from the UNGC, for instance: (a) increased trust, (b) ability to network with likeminded firms, (c) access to information about how to manage corporate sustainability, and (d) access to the UN for partnership projects. You can debate with students to what extent these benefits are relevant to different types of participants (e.g. SMEs/larger firms; firms from different sectors; firms from different countries). Another point to raise here is that most firms participate in a number of different voluntary initiatives for corporate sustainability. Hence, firms leaving the UNGC do not necessarily disengage from corporate sustainability. They disengage from the UNGC because they may find more value in other voluntary initiatives.
- **Entry Barriers:** The UNGC's entry barriers are very low. Basically, participants just need to send a letter to the UN and fill out a self-assessment sheet before being admitted to the UNGC.
- **Firm Size:** The case highlights that SMEs (firms with less than 250 employees) face a much higher risk of being delisted. These firms may simply accept being delisted, because it has no negative implications for them. SMEs are less watched by the media and NGOs and hence there is a lower likelihood that anyone would critically comment on the delisting. Also, smaller firms have fewer resources (e.g., to create structures for reporting). You can also emphasize that sustainability is often managed by individuals in smaller firms (while larger firms have entire units/departments). SMEs therefore often joined the UNGC because an individual employee thought it was a good idea. However, when this individual leaves the firm or gets another job within the company, there is often no adequate replacement. Overall, you can use this discussion to briefly debate differences in corporate sustainability management in SMEs and larger firms.
- **Country of Origin:** Some students may also emphasize that participating firms, which come from countries where legislation on non-financial disclosure is not yet very widespread, are more likely to be delisted because they are not forced by legal authorities to produce a sustainability report. By contrast, firms, which come from countries where reporting is legislated, usually just submit the report to the UNGC that they have to produce in any case to comply with existing laws. However, you can also discuss with students that this argument applies only to larger firms; SMEs are hardly covered by legislation on non-financial reporting (i.e. in most countries only larger and/or publicly listed firms have to report under relevant laws).

Based on this discussion you can move to the normative debate and ask:

How should the UNGC deal with the high number of delistings?

It is important to balance what is realistically possible for the UNGC (given its ambitions and also its relationship to the UN system) and what is strategically required to keep the initiative running. Whatever is being recommended also needs to help the UNGC to preserve its character as an inclusive initiative that takes into consideration the needs and abilities of small/large corporations coming from different countries and sectors.

- **Higher Entry Barriers:** One way to decrease delistings would be to attract more committed participants in the first place. This could be done by raising entry barriers. Practically speaking, there are different ways to do this. Students often discuss that entry barriers can be raised by making reporting a condition of participation instead of viewing it as an outcome of participation in the UNGC. This would likely decrease the delisting rate, as firms would already have experience with reporting (and thus know what they are buying into). This option would come at the prize of discriminating against SMEs which often join because they want to learn about corporate sustainability. Moreover, you can discuss with students whether the mandatory fees (which the UNGC introduced in 2018) will help to decrease delistings.
- **Better Value Proposition:** Another option would be to show participants more clearly what they are gaining from participating in the UNGC. One way to do this would be to make some of the services, which the UNGC offers, more exclusive. In 2018, many of the practical tools and publications were still publicly available and hence accessible by all firms (regardless of whether they were participating in the initiative or not). You can nudge students by raising the relevance of local networks in this context – the value that participants reap from the UNGC is most likely created at the local level where regular interactions happen. This would require to strengthen local networks (e.g., by standardizing more what they do) and to maybe even demand that all participants join local networks (instead of leaving it up to the participants whether or not they want to join). Overall, participants are only likely to see more value in the UNGC if the initiative offers higher levels of engagement and a unique value proposition.
- **Make COP Reporting Easier for SMEs:** Another option would be to make it easier for SMEs to submit COPs by further lowering the standards for such reports. For instance, it would be possible to allow SMEs to only submit a document outlining intentions and a few pilot actions regarding two or three selected principles (instead of reporting more comprehensively). Such measures could be limited in time, for instance two or three years, until SMEs have created adequate structures in their organization. Students can debate the pros and cons of such a decision option. On the one hand, it would allow the UNGC to better consider the specific needs and resources of SMEs. On the other hand, it would also further weaken the initiative in the sense that even less is required of participants.

BALANCE OF QUANTITATIVE AND QUALITATIVE GROWTH (20 MINUTES)

You can mention that you discussed rather operational issues so far (i.e. the delisting) and that you now want to turn to a more strategic discussion. You can raise the following question:

In what ways can the UNGC balance growth in terms of quantity of participants and quality of participation, especially when considering the nature of the initiative, its ambitions, and its history?

You can start by asking students whether balance is needed at all (and why it is needed). Most students will point out that simple quantitative growth is pretty pointless, as it disregards some of the current problems underlying the initiative (e.g., high level of delistings). An initiative which simply adds a number of firms each month and then delists them after a while is without much impact. On the other hand, pure qualitative growth is also dangerous, as it would change the nature of initiative significantly (and also undermine the UN's spirit of inclusiveness). Students can debate whether they lean more towards quantitative or more towards qualitative growth (and list pros and cons for each option). For instance, UNGC leadership needs to consider that former Secretary-General Ban set out the target of 20,000 participants by 2020. Also, it is necessary to consider what the head office at UN headquarters can and cannot do.

It can help to show students a continuum (see Figure 1) so that they do not perceive qualitative/quantitative growth as a dichotomous decision. Students can debate the required level of qualitative and quantitative growth based on the continuum. Based on the continuum you can discuss intermediary options:

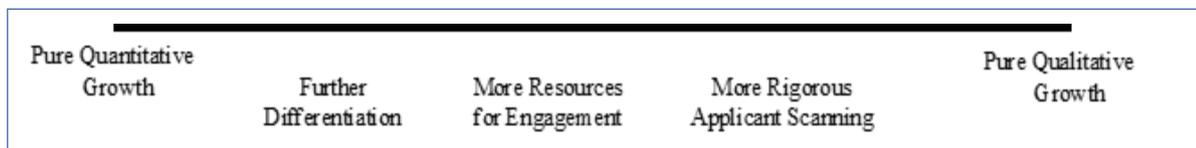


Figure 1: Quantitative/Qualitative Growth as a Continuum

- Further Differentiation/Engagement Tiers: One possibility would be to further develop the idea of engagement tiers (“participant” and “signatory”). On the one hand, this keeps barriers low for some firms, while it also, on the other hand, allows to grow qualitatively with a smaller set of engaged firms. Discuss pros and cons of this approach (e.g., most firms in the “participant” tier are likely to be larger firms). You can also use this item to discuss with students whether the fees that the Compact has started to charge are a good idea. Does this not change the nature of the initiative?
- More Rigorous Scanning of Applicants: Another idea would be to set the entry barriers even higher, for instance by only accepting firms with a proven track record of good corporate sustainability performance and reporting. Discuss to what extent this is realistic given the UNGC’s original mission of learning, dialogue, and partnership and also difficulties assessing which firms perform “good enough” to be included.
- More Resources to the UNGC to Strengthen Its Value Proposition: At the moment, the UNGC can hardly interact with individual companies, as the Head Office at UN Headquarters is rather small. If interactions take place, it is usually the local networks that reach out to participants. If the UNGC wants to strengthen its value proposition, it needs to find ways to better interact with participants (either centrally through the Head Office or through the local networks). Inevitably, this requires more financial resources, but it could also mean that participants gain more from the initiative (e.g., in terms of individual coaching regarding how to implement the ten principles).

Leave room for students to come up with additional ideas about how to balance quantity and quality. You can also mention that some multi-stakeholder initiatives have problems of a similar kind. For instance, the Global Reporting Initiative (GRI) was able to widely disseminate its standards, but it is also known that there are significant differences in the quality of reporting (despite firms using the same reporting guidelines).

CRITIQUE OF UNGC / OVERALL ASSESSMENT (15 MINUTES)

A good way to conclude the discussion is to move towards assessing the UNGC against its critical voices. Putting this discussion at the end ensures that students have sufficient knowledge about whether or not they buy into any of the critique. You can ask:

How do you assess the long-standing critique of NGOs that companies “bluwash” their operations by joining the UNGC? Has the UNGC done enough to strengthen its accountability over time?

Regarding the first part of the question, students usually agree that the UNGC contains a number of “bad apples” (i.e. firms which are not truly interested in advancing their sustainability practices through the UNGC and hence accepted to be delisted). Try to discuss this from different angles with the students. For instance, you can ask: Did all delisted firms really want to “bluwash” their operations (i.e. deliberately deceive the public about their deeds)? This is not necessarily the case. Most delisted firms are SMEs; they were mostly delisted because they did not really know what they were getting themselves into when they signed up to the UNGC (see also discussion above). So, for many firms the problem is rather indifference towards corporate sustainability and not necessarily active attempts at “bluwashing.”

You can also discuss with students whether NGOs’ original concerns – that the principles are too vague and that participant monitoring is needed – still holds. You can use this to discuss with students the tension between: (a) what NGOs think should be done to advance corporate sustainability, (b) the UNGC’s emphasis on the learning-based model, and (c) the constraints of changing the initiative within the UN system (given the historical context and also given the UN’s inability to directly monitor all participants due to resource constraints). You can conclude this discussion by pointing out that there are different types of multi-stakeholder initiatives: certification and principle-based multi-stakeholder initiatives. While some initiatives are designed as certification schemes of individual factories/farms (e.g., the

the FSC), other initiatives have a learning focus and do not operate as standards against which compliance could/should be measured (e.g., World Business Council for Sustainable Development). Students can debate the meaningfulness of both types of initiatives.

CONCLUSION (10 MINUTES)

Try to work out some key take-aways with the students. These differ a bit depending on where exactly the focus of the discussion was, but common themes that can be emphasized are:

- the UNGC remains the world's largest voluntary initiative for corporate sustainability but it is also a controversial initiative;
- ensuring accountability within initiatives like the UNGC is difficult, as you face a tension between ensuring growth and making sure that companies walk their talk;
- smaller firms face difficulties when signing up to initiatives like the UNGC, it is therefore likely that they need special assistance;
- there are different types of multi-stakeholder initiatives, ranging from certification tools (like the FSC) to learning-based networks (like the UNGC), and the assessment of these different initiatives differs;
- the embedded nature of the UNGC into the wider UN system acts both as a tremendous opportunity (the UN affiliation being one of the reasons why many firms join) but also acts as a factor limiting the scope for actions (the initiative needs to live up to central UN values like inclusiveness and the universal nature of basic principles).

Suggested Further Resources and Readings

READINGS

- Article discussing the critique of the UNGC and outlining a counter-critique: Rasche, A. (2009). *A Necessary Supplement: What the United Nations Global Compact Is (Not)*. *Business and Society*, 48(4), 511-537. Freely available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1653516
- Article criticizing the UNGC from various perspectives: Sethi, S. and Schepers, D. (2014). The United Nations Global Compact: The Promise-Performance Gap. *Journal of Business Ethics*, 122(2), 193-208.
- Article on the history of UN-business relations: Coleman, D. (2003). The United Nations and transnational corporations: From an international to a "beyond state" model of engagement. *Global Society*, 17, 339-357.
- Report by Det Norske Veritas, on behalf of the UNGC, on the development of the UNGC; including significant changes over the past 15 years and key changes needed in the future: <https://www.dnvgl.com/news/new-global-study-reveals-united-nations-transforms-business-commitment-to-sustainability-28245>
- UNGC – Accenture Strategy CEO Study (2016), covering CEO's of UNGC participant companies' perspectives to trace the development of corporate incentives to engage with social and environmental issues in core business. <https://www.accenture.com/us-en/insight-un-global-compact-ceo-study>
- Article about the UNGC's delistings as a way to deal with corporate free riders: <https://www.theguardian.com/sustainable-business/cleaning-up-un-global-compact-green-wash>
- Blog-post about UNGC's delistings: <http://www.bos-cbscsr.dk/2016/11/23/un-global-compact-silently-expels-more-than-2300-non-business-participants/>

FURTHER RESOURCES

- Kofi Annan's speech at the World Economic Forum in Davos in 1999: <https://www.un.org/press/en/1999/19990201.sgsm6881.html>
- Video from the "UNGC Academy" discussing a principle-based approach to the SDGs <https://www.youtube.com/watch?v=9lcZd9aOIRE>
- Video promoting the UNGC and its underlying idea <https://www.youtube.com/watch?v=kz2W68hyLMQ>
- UNGC YouTube Channel: <https://www.youtube.com/user/TheUNGlobalCompact>
- UNGC on Twitter: <https://twitter.com/globalcompact>