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CSR, Development (MDGs) and the UN Global Compact

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Michael Hopkins¹, September, 2010

Governments acknowledged the UN Global Compact as a means not only to motivate business to adopt a responsible approach to management, but also to engage business in finding constructive, inclusive and innovative solutions to global challenges. [Global Compact Leader's Summit, 23-25 June, New York, 2010]²

Throughout our study, we could not find, at any time, any definition of the Global Compact on what the Corporate Social Responsibility would mean. In the documents searched, websites or articles and speeches in the UN or in the articles written by scholars that have studied the Global Compact, the UN vision of CSR has not been defined nor even tried. We see at this point, a failure, an interest or an opportunity for Global Compact/ UN and a possibility of analysis and exploration for scholars. [http://globalcompactcritics.blogspot.com/]³

¹ www.mhcinternational.com enquiries@mhcinternational.com Thanks to Ivor Hopkins (MHCi), Hanifa Mezoui (UNITAR) and Francois Lorient (AIFOMD) for comments on an earlier draft

² Global Compact Leaders Summit 2010, held on 23-25 June in New York, see <http://www.unglobalcompact.org/news/62-08-17-2010>, accessed Aug 22 2010

³ Souza, Nadja V. de. "[The Corporate Social Responsibility Model Developed By the United Nations - The Global Compact](#)" Paper presented at the annual meeting of the ISA - ABRI JOINT INTERNATIONAL MEETING, Pontifical Catholic University, Rio de Janeiro Campus (PUC-Rio), Rio de Janeiro, Brazil, referenced and downloadable from <http://globalcompactcritics.blogspot.com/> accessed Sept 1st 2010

1. Introduction

The UN Global Compact (UNGC) is a path breaking movement inside the United Nations to encourage the private sector, across the world, to observe ten principles of good behaviour. Its belief⁴ is that:

‘The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. By doing so, business, as a primary agent driving globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. The UNGC has two objectives:

- 1) Mainstream the ten principles in business activities around the world;
- 2) Catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs).’

These are ambitious and laudatory objectives. The problem, of course, is that the talented people running the UN Global Compact are hampered by their mandate. Alert readers will note that 70% of the principles are devoted to labour and environmental issues. They may also wonder why wider principles were not included and also, why no mention of the UN MDGs? The answer is straightforward. But first an anecdote. I had a boss once, at the ILO in Geneva, an intelligent economist who spent a large proportion of his time in the beginning of the 1980s in UN HQ in New York with one sole objective. To get the word ‘employment’ into as many UN declarations as possible. Once the objective was achieved, the UN would then have a mandate to support employment objectives which, indeed, it did and (of course) to ensure that the ILO would receive any funds that may be allocated.

Clearly, when the principles of the UNGC were being developed through a number of struggles within the UN bureaucracy, compromises were struck so that something could be put together for the forthcoming appearance of the then UN Secretary-General, Kofi Annan at the World Economic Forum in Davos in the year 2000. But, the problem with any statement created in this way is that, should there be success as indeed the UNGC has achieved to a certain extent, its proponents are stuck with the original declaration and its limited analytical framework. Thus even though the UNGC claims ‘*to motivate business to adopt a responsible approach to management*’ {see quote above} it is manifestly unable to deliver. The UNGC might lead business down the CSR path as a first step but it may confuse the whole process and, in turn, will have, a hard job to motivate business to adopt management responsibility. This is discussed in more detail next.

⁴ http://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Bertelsmannn.pdf, accessed 22 August 2010

Box 1: The Ten Principles of the United Nations Global Compact	
HUMAN RIGHTS	
1. Businesses should support and respect the protection of internationally proclaimed human rights; and	
2. make sure that they are not complicit in human rights abuses.	
LABOUR	
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	
4. the elimination of all forms of forced and compulsory labour;	
5. the effective abolition of child labour; and	
6. the elimination of discrimination in respect of employment and occupation.	
ENVIRONMENT	
7. Businesses are asked to support a precautionary approach to environmental challenges;	
8. undertake initiatives to promote greater environmental responsibility; and	
9. encourage the development and diffusion of environmentally friendly technologies.	
ANTI-CORRUPTION	
10. Businesses should work against corruption in all its forms, including extortion and bribery.	

2. The UNGC is not CSR nor even CR

To show this statement I have to define what is meant by CSR and, to do that, I use the stakeholder formulation that derives from much of US academic literature and only slightly revised by myself to make more systematic and, I hope, a little clearer.

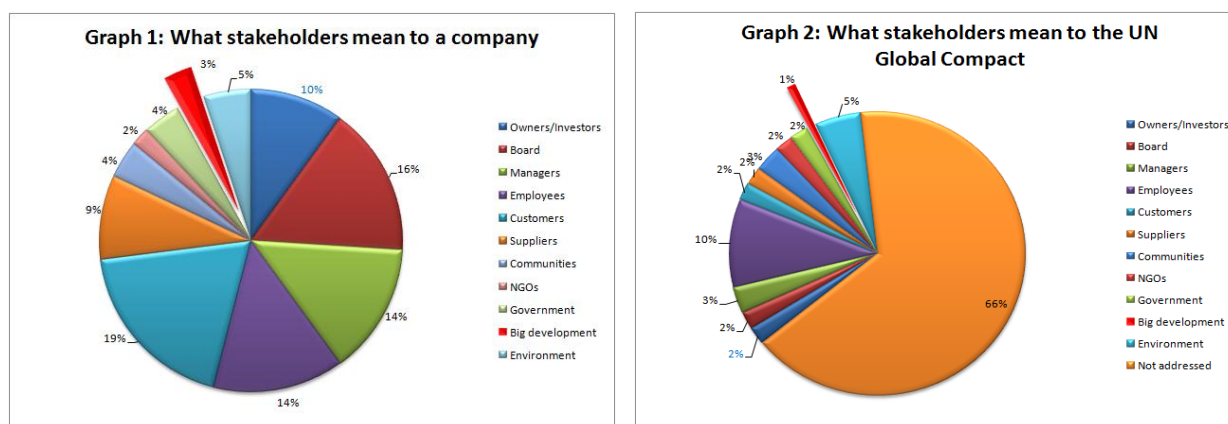
Corporate Social Responsibility is concerned with treating the key stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or responsible' means treating key stakeholders in a manner deemed acceptable according to international norms. Social includes economic and environmental responsibility. Stakeholders exist both within a firm and outside. Michael Hopkins (MHCi): A Planetary Bargain: Corporate Social Responsibility Comes of Age (Macmillan, UK, 1998) Updated by author Jan 2010.

How many of a business's stakeholders are actually addressed by the UNGC? To address that issue I have created two graphics. Graph 1 gives a typical list of stakeholders with which a company is concerned - both internal stakeholders (owners, shareholders, employees etc.) as well as external stakeholders (suppliers, customers, government etc.). Of course, depending on the industrial sector other stakeholders could be identified e.g. media, trade unions etc. I have also added a category I call 'development' more on that later. I then added percentages that I thought best reflected the importance of the various stakeholders to running a business profitably, what is called the business case. Note that the data are illustrative based upon my best guesses and not based on actual figures – to do that would require data that are not generally available for instance how much of a business's current expenditure is devoted to its various stakeholders?

So, Graph 1 illustrates my model that the most important stakeholders are the Board (16% of total importance), Managers (14%), Employees (14%) and Customers (19%). While concerns about development that could be spread in dealings with communities, government,

environment, and suppliers probably amount to much less and I have given that aspect 3%. Adding communities, government, and employees would add more to this total but the government and employees in the home country are probably more of concern than those in developing countries simply because they are closer to home and therefore more influential.

Thus I call the concern with MDGs (see below) ‘big’ development, while the concerns with communities, government, environment and suppliers are mainly specific to those groups and not to wider issues of development. Remember that large MNCs do employ directly up to 300,000 people (but more like around 75,000 on average) and perhaps 1 million indirectly (around 250,000 indirectly on average), so the biggest 500 companies employ about 6% of the world’s employment both directly and indirectly i.e. one cannot expect large corporations to have a great direct impact on the world’s employment level⁵.



Graph 2 shows the same stakeholders as above but, this time, allocated to the coverage of the UNGC ten principles. Again, the assumptions are the author’s own and drawn from Table 1.

Owners/Investors	2		
Board	2		
Managers	3		
Employees	10		
Customers	2		
Suppliers	2		
Communities	3		
NGOs	2		
Government	2		
Big development	1		
Environment	5		
Not addressed	66		
	100		
<i>Source: Author's estimates</i>			

⁵ Author’s rough calculation: If the biggest 500 companies have 75,000 employees directly employed and 250,000 indirectly employed then their total worldwide employment would be $500 \times (75,000 + 250,000) = 162.5$ million people. Given that the world has 6.5bn people with around 40% in the labour force i.e. 2.6bn, then the top 500 MNCs employ $.1625 / 2.6 = 0.0625$ i.e. around 6%

In Table 1, and Graph 2, I have mapped each of the ten principles of the UNGC to the proportion of concerns each company has to its stakeholders. Thus 14% of a company's concerns are with its employees as stakeholders (Graph 1) of which one could say that the UNGC with 4 principles on labour addresses 10% of these concerns (readers might think this is an exaggeration since the UNGC isn't concerned with employee concerns such as wages, human resource policies, training, etc., but I have concentrated on the generous side). As far as 'big development' goes the charts show that business is concerned with, say, 3% of big development issues as a stakeholder, while the UNGC ten principles cover perhaps 1% of these.

The conclusion these rough calculations give is that the UNGC ten principles covers only around 34% of stakeholders concerns and, thus, only partially covers CSR issues. On the one hand it is helpful that the UNGC covers at least some of the concerns of CSR, while on the other the UNGC should not be seen as an all encompassing CSR effort. To cover all the majority of CSR stakeholder concerns it is clear from even glancing at the ten principles, let alone agreeing with my figures, that the UNGC needs to add principles to cover owners, investors, board members (i.e. company governance), managers, customers, suppliers, communities etc. And, to cover 'big development's issues...this I discuss next.

3. MDGs, UNGC and CSR

Does the UNGC, as is stated above: *Catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs)*. The first point is that the ten principles may have a bearing on some of the MDGs but this is not explicit. Second, the UNGC team may, behind the scenes, be addressing 'big' development issues as desired by the MDGs but this is not, it appears, in its ten principle mandate. The figure I give to the UNGC's impact on big development is only 1% of its impact on companies themselves.

As to the MDGs, there are at least two further questions. First, do the MDGs promote CSR? Second, is CSR the appropriate lens through which the MDGs can be addressed ?

Before addressing these two questions, it is worth noting that the UN MDGs are part of a continuum of long advocacy by the UN for development. For instance, the first UN development decade was launched by the General Assembly in December 1961 and called on all member states to support measures to 'accelerate progress toward self-sustaining economic growth and social advancement in the developing countries. With each developing country setting its own target, the objective would be a minimum annual growth rate of 5% in aggregate national income by the end of the decade.' Subsequent development decades emphasized income re-distribution and social issues culminating in the launch of the basic needs development strategy⁶ by the ILO and then the World Bank in the 1970s, followed by the New International Economic Order (NIEO), the Human Development focus by UNDP in its celebrated human development reports both global and national, to the MDGs launched at the turn of the century. It is also worth noting that engagement with the private sector by the UN

⁶ Based upon work by the current author

and its agencies had only been with research on MNCs - notably by the TNC group in New York which was part of ECOSOC activities and by UNCTAD. The UNGC was the first major attempt by the UN to actually engage with multi-national companies and, as seen above, is a step both toward CSR and to address development issues.

The MDGs are, to the UN system, far more important than the UNGC. This is because the MDGs have a UN General Assembly mandate to encourage them right through the UN system which means that Governments have to take the MDGs on board and produce reports on their progress to meeting the MDGs. The UNGC, in comparison, does not have system wide mandate even though the secretariat is close to the UN secretary general but there is no UN system wide

Figure 1: MILLENNIUM
DEVELOPMENT GOALS

- [End Poverty and Hunger](#)
- [Universal Education](#)
- [Gender Equality](#)
- [Child Health](#)
- [Maternal Health](#)
- [Combat HIV/AIDS](#)
- [Environmental Sustainability](#)
- [Global Partnership](#)

and consequent Government mandate to pursue the UNGC.

On the first question, do the MDGs promote CSR. The short answer is, unfortunately, no. The MDGs have laudable objectives as seen in the Figure 1 below, where eight development goals are stated and to be achieved by 2015 (woefully behind schedule, but that is another story). Of these MDGs, perhaps Goals 7 and 8 (and their targets) come nearest to direct business interest. In passing, it is worth noting that the MDGs state 'goals' not 'processes' although the public sector bias is rather obvious.

Figure 2: MDG Goals 7 and 8

GOAL 7: ENSURE ENVIRONMENTAL SUSTAINABILITY

Target 1:

[Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources](#)

GOAL 8: DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

Target

[In cooperation with the private sector, make available benefits of new technologies, especially information and communications](#)

5:

But the ‘targets’ suggested still do not include the ‘process’ of how to do this and how to involve the private sector. Principle 8 mentions the private sector but then reduces its appeal to only ‘make available benefits of new technologies’. Consequently, the MDGs hardly mention the private sector (and by implication its new strategic CSR approach), nor do we see a mention of the UNGC at least at the level of goals and targets.

Turning to the second question, is CSR the appropriate lens through which the MDGs can be addressed, one must start by replacing ‘the’ with ‘an’ *appropriate* lens. Then comes the additional question why should companies be interested in MDGs and, development in general?

The MDGs are the current manifestation of the laudable UN concern with development and, as such, can be said to be the international development communities current definition of development (frankly I prefer to use one indicator upon which everything else contributes – life expectancy at birth first suggested by Prof Dudley Seers, founder of the Institute of Development Studies at the University of Sussex).

Companies are interested in development because of the (at least) five benefits that will both improve a company's' bottom line and help to resolve the problem of under-development and poverty⁷:

1. Reputation is improved since it is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, but also about tangible inputs into what the company is doing on the major issues of the world and, in particular, on development.
2. Global firms face global challenges and their employees, off-cited in stakeholder dialogue conversations, urge their company not only to work in the company’s best interest but also in wider social problems such as development.

⁷ Drawn from <http://www.mhcinternational.com/corporate-social-responsibility/publications/csr-and-development-part-ii-the-fortune-to-be-gained-by-csr.html> accessed Aug 31st 2010

3. Better risk management can be achieved by in-depth analysis of relations with external stakeholders even if these factors are not directly related to the company's bottom line.
4. Working on development positively helps in the building of relationships with host governments, communities and other stakeholders and can be of vital importance should the company encounter future difficulties with regard to its investment decisions.
5. There is a growing consensus of a Planetary Bargain (the thesis of my first book on CSR called *The Planetary Bargain*) whereby beggar-thy-neighbour policies of companies through using the cheapest labour, the most polluting industries etc. are neither in the interests of the companies concerned nor of their consumers.

Increasingly, development activities are included under the umbrella of CSR. Is this the best model? Probably it is simply because investment in development (sometimes called Corporate Social Investment – CSI) must feedback to the business case of a company. The business case for CSI is based upon reputation and intangible benefits to assets such as employee motivation and satisfaction, and risk reduction. Given that intangible assets these days can be as high as 80% of a company's valuation (e.g. its share price multiplied by the number of shares) CSI can be a non-negligible contribution to them. How big the contribution is, is still, currently, not measurable and so only best guesses will dictate how much and how seriously a company will take its involvement in development.

For instance, Visser describes CSR drivers in developing countries as internal and external⁸. Internal drivers emanate from pressures within the country and include cultural traditions, political reform, socio-economic priorities, governance gaps, crisis response and market access. External drivers which tend to have a global origin include international standardisation, investment incentives, stakeholder activism and supply chain.

So, of course, there are costs and limitations to the CSR approach, and the idealism behind the approach can also hinder its spread as hard-nosed businessmen try and squeeze every ounce out of cost cutting and profit maximization. But, as the classic study *Built to Last* has shown, CSR companies perform better for shareholders in financial and market terms, carry less debt, and are long stayers.

4. Conclusion

⁸ Visser, W., 2008. Corporate Social Responsibility in Developing Countries. In: Crane et al. Eds. The Oxford Handbook of Corporate Social Responsibility. Oxford. Oxford University Press. Chapter 21.

I have shown that the UN Global Compact is only a partial CSR approach, even though it may well help companies to head in that direction. Thus it needs additional principles before it can be anywhere near a full-fledged strategic CSR approach.

The MDGs too, are even further from a CSR approach than the UNGCs but they can help in orientating a company toward development interventions should this be part of a company's CSR approach. But more is needed, for instance, business is always interested in the impact they make on any investment in development – I have described elsewhere a rapid framework to assess that impact⁹.

Clearly next steps for proponents of the UNGC are to explore additional principles¹⁰ to add to the UNGC to ensure it becomes a system wide full-fledged CSR approach (e.g. add principles covering all stakeholders such as owners, customers and extend the employee and supplier principles).

For proponents of the MDGs, next steps are to clearly link the MDG goals and targets to what private corporations can reasonably do under the banner of CSR. Indeed, extending 'corporate' to include 'corporate bodies' such as NGOs and Public Institutions themselves is also another route that could be taken and has not received as much action as in the private corporate sector. The question therefore remains and that is how can all these groups become more responsible thereby fulfilling CSR for themselves and, at the same time, the bottom billions of the pyramid?

But, to end on a positive note, it is encouraging that businesses are adopting a strategic CSR approach, useful that the UNGCs are there and imply support to solid principles for companies from the UN; and important to know that the development approach of the UN, the MDGs, is showing increasing interest from companies and associations of companies.

9

http://www.mhcinternational.com/images/stories/Politeia_paper_on_Corporations_and_Development_May_2008.pdf accessed Sept 1st 2010

¹⁰ UNGAP perhaps? (United Nations Global compact Additional Principles)