

Center for Business Ethics

AT BENTLEY UNIVERSITY



Raytheon Lectureship in Business Ethics

NOVEMBER 5, 2013

The UN Global Compact and Business: Creating the Architecture of a Better World

GEORG KELL

Executive Director, United Nations Global Compact

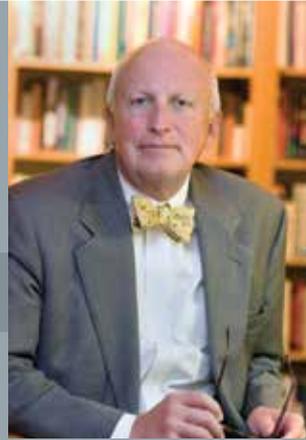
BENTLEY UNIVERSITY is a leader in business education. Centered on education and research in business and related professions, Bentley blends the breadth and technological strength of a university with the values and student focus of a small college. Our undergraduate curriculum combines business study with a strong foundation in the arts and sciences. A broad array of offerings at the Graduate School of Business emphasize the impact of technology on business practice. They include MBA and Master of Science programs, PhD programs in accountancy and business and selected executive programs. The University is located in Waltham, Mass., minutes west of Boston. It enrolls approximately 4,200 full-time and 140 part-time undergraduate students and approximately 1,400 graduate and 40 doctoral students.

THE CENTER FOR BUSINESS ETHICS at Bentley University is a nonprofit educational and consulting organization whose vision is a world in which all businesses contribute positively to society through their ethically sound and responsible operations. CBE's mission is to give leadership in the creation of organizational cultures that align effective business performance with ethical business conduct. It endeavors to do so by applying expertise, research and education and taking a collaborative approach to disseminating best practices. With a vast network of practitioners and scholars and an extensive multimedia library, the center offers an international forum for benchmarking and research in business ethics.

Through educational programs such as the Raytheon Lectureship in Business Ethics, the center is helping to educate a new generation of business leaders who understand from the start of their careers the importance of ethics in developing strong business and organizational cultures.



Executive Director,
Center for Business Ethics and
Hieken Professor of Business and Professional Ethics
Bentley University



W. Michael Hoffman, PhD

Most speakers in this series have been corporate leaders from a variety of sectors. In this monograph, we have the honor of featuring someone who heads what is arguably the most influential organization for advancing global standards for the ethical conduct of businesses, Georg Kell, the executive director of the United Nations Global Compact. To get a sense of the significance of the Global Compact, let's think back, way back to the 13th century, when the great explorer Marco Polo set out from Venice and traveled the Silk Road to China. He returned home 24 years later. According to legend, most of the 800 people who accompanied him perished along the way, while Polo retained a small portion of his wealth only by hiding jewels in the folds of his tattered clothes.

Marco Polo risked his life to engage in the kind of international trade that we now take for granted, and because we have built on his legacy, our 21st century Silk Roads are not nearly so treacherous and weave throughout the globe. To illustrate, consider this: in 2011, members of the World Trade Organization exported \$16.7 trillion in merchandise, foreign direct investment was approximately \$1.35 trillion and current global currency trades amounted to some \$4.7 trillion per day!

How was this astonishing transformation possible? Some might say we have better technology today, and of course we do. But what is more important, I think, is that commerce today is guided by better business regulations and ethics than existed during Marco Polo's time. The Global Compact stands out as a leader in strengthening the norms that have made this growth possible, and this is due in no small part to Georg Kell, who has headed the organization since its founding in 2000.

The story of the Global Compact may not have the romantic appeal of Marco Polo, but it is a story we can be proud of ... the true story of social progress reflected in the remarkable advancement of global commerce.

The RAYTHEON LECTURESHIP IN BUSINESS ETHICS at Bentley University is made possible through the generous support of the Raytheon Company.

Raytheon is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation spanning 92 years, Raytheon provides state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; and command, control, communications and intelligence systems, as well as a broad range of mission support services. The Company reported sales of \$24 billion in 2013 and employs 63,000 people worldwide. It has built a reputation for adhering to the highest ethical standards in the industry. The Raytheon Lectureship in Business Ethics series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States. Learn more about Raytheon online at raytheon.com.



Georg Kell delivers the Raytheon Lectureship in Business Ethics to students, faculty, staff and friends at Bentley University.

Chairman and Chief Executive Officer
Raytheon Company

William H. Swanson



Ethics in business is about so much more than just following rules. Fundamentally, it is a matter of creating the right culture in our organizations, so that people have the ability and support to make decisions that are not only effective, but also consistent with the values and principles we hold dear. Raytheon has worked very hard in establishing an ethical business culture that is accepted by our employees and woven into the fabric of the ways in which we work. Our continued growth and profitability depend on it.

Raytheon has supported the Center for Business Ethics at Bentley University for many years, and our sponsorship of its Lectureship in Business Ethics is an important commitment for the company. We recognize the enormous value of the leadership given by the center for over three decades, to promote ethical business practices and cultures in the United States and around the world. And ethical leadership — illuminating and inspiring conduct that is instinctively ethical — is what the Raytheon Lectureship in Business Ethics is about. I'm proud that Raytheon can play a part in bringing to the Bentley campus highly respected leaders of companies that have a manifest and deep-rooted commitment to doing business in the right way. Their insights contribute much to an important discourse on how the business community can and should achieve ethical excellence.

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere (unglobalcompact.org/aboutthegc/index.html).



(From left) Jonas Haertle, head of the PRME Secretariat, UN Global Compact; Tim Schultz, director of business ethics and compliance at the Raytheon Company; Georg Kell, executive director of the United Nations Global Compact; and W. Michael Hoffman, founding executive director of the Center for Business Ethics and Hieken Professor of Business and Professional Ethics at Bentley University.

Executive Director
United Nations Global Compact

Georg Kell



Georg Kell is the executive director of the UN Global Compact, the world's largest voluntary corporate sustainability initiative with 8,000 corporate participants in 145 countries. A key architect of the Global Compact, he has led the initiative since its founding in 2000, establishing the most widely recognized multi-stakeholder network and action platform to advance responsible business practices. Mr. Kell also oversaw the conception and launch of the Global Compact's sister initiatives on investment and business education, the Principles for Responsible Investment (PRI) and the Principles for Responsible Management Education (PRME).

Mr. Kell started his career as a research fellow in engineering at the renowned Fraunhofer Institute for Production Technology and Innovation in Berlin. He then worked as a financial analyst in various countries in Africa and Asia. He joined the United Nations in 1987, and has been at the leading edge of the organization's private-sector engagement ever since. A native of Germany, Mr. Kell holds advanced degrees in economics and engineering from the Technical University Berlin.

The UN Global Compact and Business: Creating the Architecture of a Better World

The Raytheon Lectureship in Business Ethics of Bentley University

November 5, 2013

GEORG KELL

Executive Director, United Nations Global Compact

Thank you, Dr. Hoffman, for your kind introduction. I am very pleased to be here at Bentley University. As the home of the first business ethics center in the world, Bentley has been a pioneer in the field and it continues to make important contributions in the area of business and ethics especially in terms advancing the Principles for Responsible Management Education (PRME). I am honored to be here.

I want to share with you some ideas on what it means to work with business globally in an era of uncertainty. I want to start not with a historical review, but to suggest what are a few big global trends occurring around us that are shaping the evolution of business and other institutions, including governments.

At the top of my list is the fact alluded to by Dr. Hoffman, namely that business has gone global. Trade barriers have come down, a rules-based approach was put in place after the Second World War, and it has been further refined since then through many other agreements that have shaped commerce, trade and investment.

With globalization, businesses can no longer hide behind one government. Now business is exposed to many governance regimes around the world, each with its own imperfections. Consider this: dozens of countries around the world suffer from systemic corruption. Abuses of fundamental human rights are widespread, not only in conflict-affected countries, but also in many countries with high rates of violence.

The World Bank estimates that 1.5 billion people live in countries affected by violent conflict. This means business has to adapt. It is no longer sufficient to have good relations back home with one's own government. When you go global, you have to go local everywhere, and this means you have to adjust.

Secondly, a fundamental shift happened about 10 years ago. Up to that point, foreign direct investment was primarily about cheap sourcing of inputs, be they in the form of low labor costs or the extraction of natural resources. However, about 10 years ago many companies realized that economic growth had migrated to the east and to the south. The *modus operandi* of business engagement has changed somewhat from that of resource extractor to market builder. Investments are increasingly about a bet on the future and where the next two billion middle-income consumers will be. Businesses want to be there for the long run and grow with the societies where they operate. That changes the outlook and perspective.

Thirdly, when businesses go global they, of course, are confronted with enormous challenges and imperfections, not least of which are poverty and the abuses of all sorts of basic rights that are taken for granted elsewhere. When you operate subsidiaries around the world, in the neighborhood of your operations, most likely you will find extreme poverty, children who cannot go to school, women discriminated against,

and so forth. These businesses operate in tense environments where the opportunities for making a difference can be quite big. However, if you do not act, if you are silent and isolated like an island, your practice is unlikely to grow and you will be exposing yourself to enormous risks. The implications of going global are quite fundamental and quite long-term.

Fourthly, information technologies and communications technologies have empowered people worldwide. This means that traditional forms of authority are not the only source of legitimacy. You may need a license to operate, but it is no longer sufficient to have only a government license — you also need a license from the people. Worldwide trust parameters, the recent historical events from the Middle East and elsewhere and the erosion of traditional forms of hierarchy, remind us what it means for people to be empowered.

What this means from a corporate perspective is that you have to engage where you want to grow. You have to engage with your stakeholders and communities. You can no longer just apply marketing skills and linear thinking to grow. You truly have to go global, and you have to earn your license to operate. Witness the rise of the stakeholder theory: 10 years ago, it was a marginal idea, but today it is part of everybody's vocabulary.

Communications technology, and the empowerment it brings, increases the emphasis on transparency. Not too long ago you could hide the dark side of your supply chain. You could outsource the risks and insource the benefits. This equation, however, is being challenged by transparency. Recent events in Bangladesh and elsewhere are stark reminders that this process is not yet complete. However, it is becoming increasingly clear to companies that being silent or concealing the shadowy side of their operations is no longer an option. Transparency is a must, and it needs to be addressed proactively.

Commercialization and technological changes have blurred the boundary between what is public and what is private. This raises fundamental issues about ethics and what is right and wrong. Consider the air — it is the ultimate public good. Governments now are being forced to negotiate prices for emissions. This is the only way to address climate change, yet it poses a whole new set of challenges. Consider water — for many countries around the world, water scarcity is their biggest issue. Yet, in the mind of most people, water is free and considered to be a basic human right. Good stewardship of water requires methods that ensure sustainability of water resources.

Now think about the recent debates on information technology, counter-intelligence and privacy versus the public good. These are all matters that raise questions regarding the boundaries of public goods. The boundary between public and private goods is being contested and is increasingly and continually evolving. This leads us to continuously redefine the role of business — how far it should go or not go? How does the role of the state factor in? Special Representative of the United Nations on Business and Human Rights John Ruggie, through the Guiding Principles on Business and Human Rights, has articulated the fundamental responsibility of the state to protect human rights, while recognizing that the responsibility of business is still ambiguous given that they operate in many countries where policies on human rights can vary.

If you follow global developments — north, south, east, west — you will see that for all of these trends I have mentioned, there are drivers continuously spinning off that are pushing business institutions to find the right long-term approach to deal with these issues.

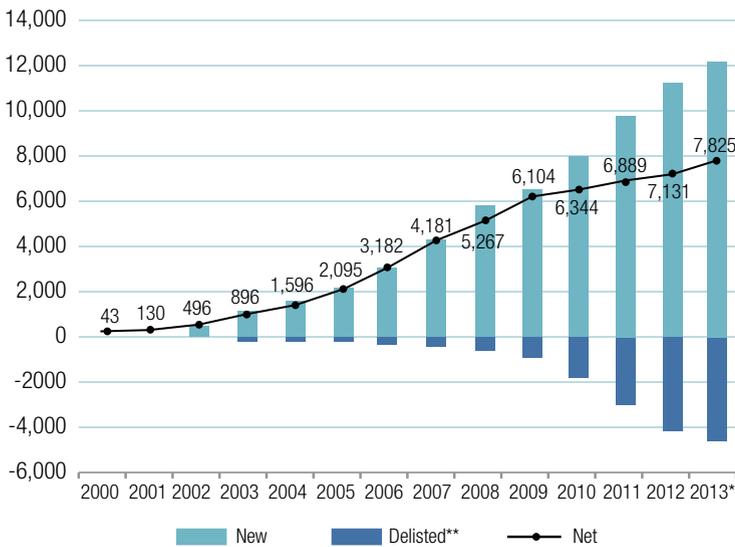
I believe that we are in a fragmented world in which power is generally becoming more decentralized, and a new search is going on to define what is right and wrong. I think this cuts clearly across nation states and affects all societies everywhere, and in this regard, I think the search is particularly acute at the community level.

What does this all mean, and why am I making these points? It is because these trends have provided the background for the formation of the UN Global Compact (unglobalcompact.org). More than a decade ago, we realized that there was an opportunity to project the universal values that member states had long agreed on, but the implementation of which had generally been lagging. Since business has gone global, there is a legitimate value proposition in asking businesses themselves to embrace and act upon universal principles, and thereby ensure that their own operations are

ethically sounder and contributing collectively to market stability. Remember, markets can only thrive when people, by and large, “vote” for them and support openness. Markets can only grow when the great majority of people feel that they have a stake in them and benefit from them. Please note that the United Nations, for nearly seven decades, has produced important soft law in the areas of human rights, labor, the environment, good governance and corruption. To ensure its relevance, the United Nations Global Compact has called on businesses to make these universal principles a part of their own management culture, to have their CEOs commit publicly to these principles and report annually on the steps they have taken to achieve greater accountability and disclosure.

The graph below illustrates the pathway of our history. The Global Compact started in the year 2000 with just over 40 companies

Business Participants Stock and Flow



Note:

Gross = All companies that signed the GC, whether or not they were subsequently delisted; Net = Gross – Delisted

*As of 18 October 2013

** Delisted includes failure to communicate on progress and other reasons (e.g., merger, voluntary withdrawal, etc.)

that had the courage to take a stand on human rights. They stated, “Yes we are against the abuse of human rights, and where we can, we will support positive human rights measures. We want to promote decent workplace conditions regardless of where we are. Moreover, environmental stewardship has to become a part of our management approach and we will start the pathway of working towards anti-corruption policies and practices as best as we can.”

You can see that over the past 13 years, the number of participants has grown. We have reached 8,000 companies located in 145 countries. The dark blue bars on the bottom of the preceding graph represent the number of companies that did not live up to the Global Compact’s requirement for publicly disclosing progress and were, therefore, delisted. As of today, over 4,000 corporate participants have been delisted — a majority of which were expelled due to their failure to publicly communicate progress to stakeholders (unglobalcompact.org/COP/index.html).

To drive this forward, we have developed in all these issue areas, best practice methodologies. When you work on human rights and labor issues, you need to have an understanding of what does and does not constitute good practices. This fundamental understanding is key for an issue approach in any domain. You need a moral compass and orientation.

Over the past couple of years, we were lucky enough to launch major initiatives to help make the business case for embracing the Global Compact. Chief among them is PRI or Principles for Responsible Investment (unpri.org). PRI is now headquartered in London and is driven independently, largely by institutional investors who realize that, in this day and age, environmental, social and governance issues are actually key for long-term success. If a company ignores these, then over time the

company will not succeed financially. In other words, environmental, social and governance (ESG) issues increasingly have become material for long-term financial success. Investors now largely consider it their fiduciary duty to get a handle on ESG issues and integrate them into investment analysis and decision-making. Dozens of benchmarking efforts are ongoing, and that is a wonderful development. Ultimately, this will mean that companies that are serious about corporate sustainability will enjoy a market premium because they will be considered better positioned to mitigate risks and seize new opportunities.

The other important initiative is Principles for Responsible Management Education or PRME (unprme.org), which focuses on business education and the leaders of tomorrow. Our dream has always been for new business leaders to already know about the Global Compact at the outset of their careers. In this way, we do not have to convert them after disaster strikes or have them join in response to their mistakes. PRME is working for the future generation of business leaders by having business schools integrate the principles, ethics, and values of the Global Compact into their curriculums so that down the road, when business school graduates assume leadership roles, these elements become material to their long-term goals.

A number of issues were discussed at our recent Global Compact Leaders Summit (leaderssummit2013.org/home). As part of that event, companies were able to share best practices on issues relating to climate change, women’s empowerment, children, supply chain management, peace and anti-corruption. It is important to really look deeply into the economics and the behavioral aspect of each of these issues separately, because each of them has its own challenges and solutions. We discovered that by offering a shared platform where participants can collaborate and co-invest, there’s a real

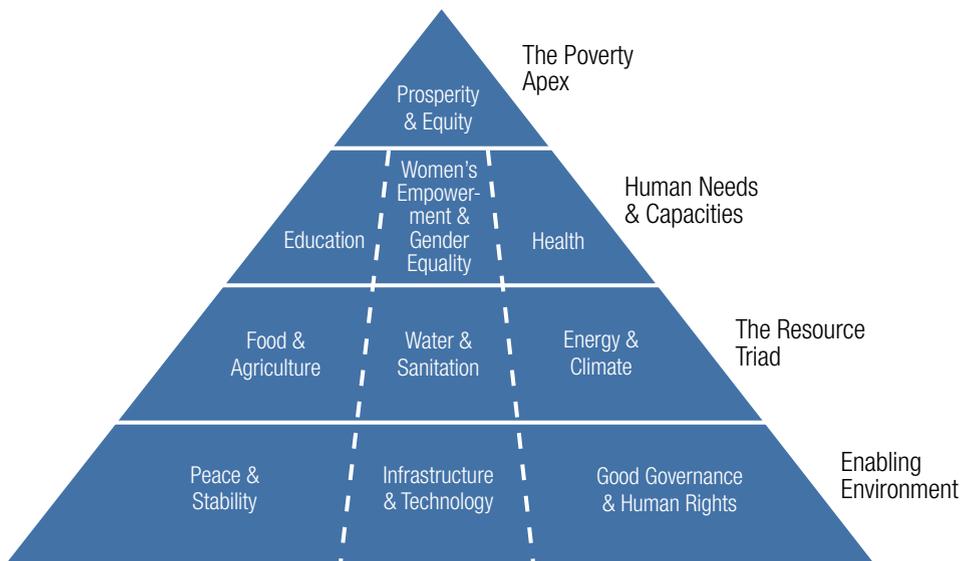
opportunity to transform the environment in which companies are working. We believe this concept of collective action, in which efforts are pooled behind a single issue, is the way forward. It empowers participants to work on these issues on the ground and make lasting change by creating an enabling environment. An example of this is the collective action in Nigeria against corruption. Foreign and local companies, working together with politicians overseeing public institutions, are introducing integrity pacts for public procurement. These are catalytic, self-motivated activities because they help to reduce transaction costs and create a more stable and predictable environment.

Another example is the work being done for advancing women’s empowerment. In Japan, our local network has launched the Women’s Empowerment Principles or WEPs (weprinciples.org) in all parts of the country. The list goes on and on, but the point is that to get to the root cause of many systemic problems, collaboration and the pooling of efforts is the only real chance we have to bring about lasting improvement.

More recently, we have been trying to scale up these collaborative efforts in a big way. Global Compact LEAD (unglobalcompact.org/HowToParticipate/Lead), our leadership platform of over 50 companies, has thought very hard about how and where public and private interests overlap.

LEAD companies played a central role in shaping the input provided by the Global Compact to the UN Secretary-General on the Post-2015 Development Agenda, which will define the global development priorities to succeed the targets of the Millennium Development Goals (MDGs) expiring in 2015. As part of that process, LEAD companies developed the “Post-2015 Issue Priority Areas” pyramid, illustrated below, which places “Prosperity and Equity” at the very top. By doing so, they have recognized that inclusive growth is key for long-term market development. The second layer of the pyramid is “Human Needs and Capacities,” which is comprised of three main issues: Education, Women’s Empowerment and Health, and Gender Equality.

Post-2015 Issue Priority Areas

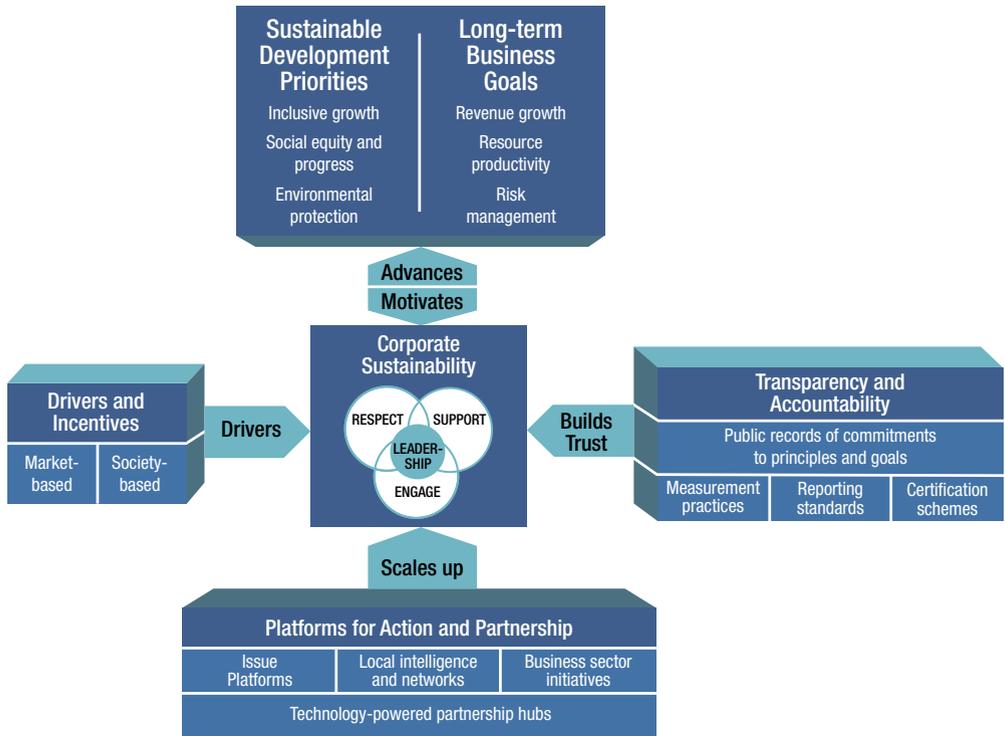


This points to the social dimension. The third layer of the pyramid refers to the environmental nexus, or what we call “The Resource Triad,” which consists of Food and Agriculture, Water and Sanitation, and Energy and Climate. Underpinning all of this, on the fourth or base level, is what we call “The Enabling Environment.” The idea here is that without Good Governance and Human Rights, Infrastructure and Technology, and above all, without Peace and Stability, these other efforts are meaningless.

This pyramid is now our guidepost for the work we are doing at the country-level to engage businesses on issues in a collaborative manner. I can report that a number of

countries have embarked on this and have already identified key priorities. Argentina, for example, has recently identified corruption as its number one priority, environmental stewardship as number two and the human rights of indigenous people as number three. Participants in Argentina are currently organizing themselves around these three priority issues and are exploring ways to create a more enabling environment. Our mission is to expand this around the world and to encourage a “self-enlightened, bottom-up” approach to business. The systemic barriers to growth are intimately linked to public policy issues, and, increasingly, these can only be tackled through collaboration.

Post-2015 Business Engagement Architecture



For more details, please read the entire publication: “Architects of a Better World – Building the Post-2015 Business Engagement Architecture”.

Finally, I want to spend some time on this last slide because it truly brings together our 13 years of experience working in this area. This plots the whole interface of corporate responsibility and its relationship to the drivers, the market and the public good dimension. It illustrates some of the operational modalities now in effect that were not available not too long ago. At the heart of this is the balance between respect and support. Business, rightly, should be expected to respect universally accepted principles. In implementing these principles, businesses need to be in compliance with the law and make sure they are not complicit in doing harm to people or the environment. This remains at the core of the Architecture that I am presenting to you here. Related to the obligation of “respect” is the notion of “support.” It is not good enough just to comply with the law. Where possible, businesses need to make a difference through positive action. Being silent in the face of abuse is morally wrong. It may be justified on legal grounds, but businesses should always take the opportunity to do the right thing. This notion of support can take the form of advancing women’s empowerment, considering the role of children in the community and upholding environmental stewardship that goes beyond compliance with the law.

The relationship between respect and support is at the heart of the “Business Engagement Architecture” (unglobalcompact.org/resources/441) because it highlights the need for corporate responsibility and sustainability. What really is new here is the recognition that long-term business success is ultimately, totally and intimately tied to long-term societal success. Business cannot succeed in societies that fail. Business cannot thrive when there are systemic corruption or human rights abuses.

Therefore, with the help of investors and others, we are now directly mapping and linking where the material connections are between the long-term corporate goals and the long-term societal goals. There are many win-win possibilities where businesses can get involved, not only at the level of individual corporations, but increasingly on a collaborative level. We are doing this with a view toward 2015 when the international community is expected to enact a new set of global development goals that will replace the Millennium Development Goals. Business is already actively contributing to this process by defining priorities as shown on the pyramid and gearing up to show that it has an interest and a stake in being a part of the solution.

Transparency and accountability are continually evolving. Disclosure requirements are also increasingly feeding into investors’ requirements and expectations. Many working groups are currently refining disclosure methodologies. In addition to measuring past actions, these methodologies increasingly assess the future orientation of a company and how it is positioned around non-financial issues. These non-financial issues are being seen increasingly as indicators for long-term financial success; investors want to know how they link to a company’s core business. In this way, accountability is closing the gap between the investor community and the business community. The integrated reporting movement is evolving, and many groups are trying to push this envelope further. It is a continual process toward advancing disclosure and accountability.

We want all companies, regardless of their size or level of advancement, to step on the escalator of change. Therefore, participants of the Global Compact have the option to engage at different levels. We welcome and encourage small and medium sized enterprises (SMEs) from all countries that want to commit to

continual improvement, as well as large and/or more advanced companies. For companies that want to achieve higher levels of performance and generate enhanced value through the Global Compact, we offer the Blueprint for Corporate Sustainability Leadership (unglobalcompact.org/docs/issues_doc/lead/Blueprint_english.pdf), which details 50 criteria for leadership.

We have developed a new Executive Board Program that is being introduced into corporate boardrooms of LEAD companies. It is no longer just an issue of managing compliance and ethics in a static way, but also of integrating and anchoring at the board level. This is an important development on the transparency and accountability side.

In terms of drivers and incentives for corporate sustainability, every market has its own characteristics, but there are common features across all of them, one of which is the empowerment of people and the importance of earning a license through stakeholder engagement. Other important trends include the idea that different markets are increasingly putting a premium on ethical and green performance. There are also governmental and regulatory policies and expectations. These expectations are very important, and there are enormous variations among different countries. Increasingly government regulators expect at least listed companies to disclose information pertaining to their social and environmental impacts.

I talked already about the modalities of engagement and the new development of issue platforms that allow participants to pool efforts and thereby achieve transformation. In the past, change in these areas was more incremental and done mainly to protect one's own brand or differentiate it from competitors. That landscape is changing now. Our business leaders are more enlightened. They recognize that they actually have an opportunity to lead on some of these issues and bring about lasting change. It is still too

early to call this a successful approach because it has to be owned at the country-level and has to be driven from the bottom up. However, the indications so far are quite encouraging.

Now what does this all come down to? It comes down to voluntary engagement, because the Global Compact has neither the resources nor the mandate to force change. Voluntary engagement means that business leaders need to be won over to this agenda out of enlightened self-interest. The contribution of voluntary initiatives to the overall sustainability agenda is always partial. They can only complement, but never substitute for what governments do or do not do. However, voluntary initiatives can play two fundamentally important roles. First, in situations where government is weak or failing, voluntary initiatives provide a key ethical platform for setting behavioral expectations. Secondly, voluntary initiatives are also a source of innovation. They allow companies to push ahead with new concepts that are not yet codified in a meaningful societal context; they are not yet part of established rules or laws, yet may become so at some point. These two important functions — one you could call filling in gaps or voids, and the other pushing for innovation — complement each other, especially in an era in which business has gone global.

Do we have a chance to bring about broad change through voluntary initiatives? I hope so, but it will happen only if markets remain open, the world stays peaceful, and if the general sense of a rules-based approach to global integration prevails. In other words, political stewardship will continue to be highly in demand. Without that, markets will crash if we repeat mistakes of the past and global commitments falter. More than ever, business leaders today are challenged to recognize this and to contribute and make the case for engagement on these issues. Advocacy by progressive business leaders for long-term change is increasingly in demand.

Every year we conduct a survey of all our business participants, to which more than a thousand respond. Companies answer a detailed questionnaire assessing how and to what extent they are implementing the 10 principles and addressing UN goals and issues. The good news is that every year, the survey strongly and robustly suggests that the internalization of principles into management practices and operations is improving. There is clearly a trend of improvement. However, in many critical issue areas, implementation is really lagging behind what the leadership is saying or believes to be true. This is especially true for human rights and anti-corruption. Because these are so intimately linked with societal issues, change comes slowly. Our survey confirms that we must redouble our efforts in these areas.

Another big insight is that supply chain issues remain a major roadblock for improved performance. Less than 20 percent of companies actually assist their suppliers in setting and reviewing sustainability goals. So we are trying to push them to become more involved in sharing guidance and helping to build capacity on the ground.

I am quite optimistic that with the proper framework — such as the Global Compact’s Business Engagement Architecture — and an issue-specific and bottom-up approach, voluntary initiatives can accelerate positive change in critical areas. Clearly this is not a silver bullet. The big picture reminds us that good governance and collaboration remain the keys to success.

I want to conclude at this point with a few daring predictions. I am optimistic that within three years, provided the world stays peaceful and committed to openness and collaboration, the investor community will have figured out

how to put a positive premium on engagement in the Global Compact. This means that companies that are serious about integrating the Global Compact principles into their strategies and operations will realize a financial benefit from doing so.

I also dare to predict that within the not-so-distant future (and actually it has already happened), the principle-based approach to change is knitting together suppliers and corporations. This is helping to create significant improvements in corporate culture and how companies address fundamental issues such as labor, supply chains, diversity, and gender issues, which are still lagging behind. As people everywhere are more empowered, it is only a matter of time until these fundamental principles are fully realized.

The biggest risks are, first and foremost, political in nature, such as a lack of willingness to collaborate multilaterally. The world is becoming ever more interdependent, yet the political will to cooperate does not seem to keep pace with this need for cooperation. This is a serious matter that is relevant not only for climate issues, but for many other issues as well.

Another big risk is that fragmentation of power will lead to a more decentralized and inward orientation in which populism, nationalism and protectionism gain the upper hand. We see again and again signs that run counter to the sharing of best practices, technologies and opportunities. Provided the world remains committed to openness and the basic foundations for multilateralism, the agenda of advancing environmental and social principles for corporate behavior is bound to gain significance. For companies to integrate globally — whether they are from China, Brazil or South Africa — it is increasingly a prerequisite to master these issues. When companies from the U.S. or Europe go to



India or elsewhere, they need to understand the local conditions, and increasingly they are being asked to be part of the solution and not part of the problem. I am very optimistic that this agenda will gain in relevance and unfold in many different ways and forms.

I hope you will stay engaged and understand what all this means for your own studies and work. It is an open-source agenda that calls for voluntary engagement of individual decision-makers. There is no singular answer. The Global Compact is based on a decentralized network approach; there are currently 101 local networks operating around the world. All of them operate from the bottom up; all of them are growing; all of them are trying to organize collaboration in ways that have a stronger impact. It requires individuals, because, at the end of the day, it is individuals who make the decisions. At the end of the day, it is about ethics and the definition of right and wrong.

I thank you very much and would be happy to answer your questions.

Questions & Answers

Below are highlights of Georg Kell's question-and-answer session with Bentley University students, faculty, staff and guests.

QUESTION: You said that more than 8,000 companies have joined the UN Global Compact. Although they may collaborate on matters of corporate sustainability and ethics, I believe it is quite possible that many of them compete in the marketplace. Are there any issues or conflicts that arise from this duality in their interactions?

GEORG KELL: Yes and no. For many companies, engagement in the Global Compact is still about differentiation and being perceived as more progressive than their peers and competitors. In terms of competition, there are ramifications when you talk about sensitive issues at the company-level. We have to make sure this work is done in the utmost transparent manner, so that companies can then collaborate on ESG (environmental, social and governmental) issues in a safe way.

In general terms, we strongly encourage companies to collaborate and not look at the Global Compact or other such voluntary initiatives as a means to distinguish or differentiate their companies from their competitors. We hope that companies see participation in the Global Compact as an opportunity to pool their efforts, because all of the dilemmas with which we are concerned are systemic in nature. While one company can make a small difference, a thousand companies can do more. However, to get to the root cause of the issue, you need to engage with the policy makers and the community, and that requires collective action. There are competitiveness issues, issues of transparency and winning over companies to really think long-term rather than thinking just in terms of differentiating themselves in the short-term.

QUESTION: You mentioned that over 4,000 companies have been delisted. That is a very large number and a very large percent of your companies. Do they tend to be from certain parts of the world or from certain industries? What are you doing to prevent more companies from being delisted?

GEORG KELL: Yes, it is one of our biggest challenges. We have delisted companies from all regions of the world. Unfortunately, SMEs are disproportionately represented among the delisted companies. They often lack the knowledge, tools and resources to institutionalize their corporate sustainability activities. We believe the size of a company should not be a barrier to integrating sustainability, and for that reason, many of our local networks are now making special efforts to engage and support SMEs. We run training programs in many countries around the world to empower local networks to make the case for disclosure. CEOs of SMEs often tell me, “I am running a small shop with 50 people. I know what’s right and wrong. I don’t have time for bureaucracy.” Of course, annual disclosure is required, so we take steps to provide guidance in a very simple way. This exercise forces CEOs to sit together with their staff and talk through the principles of the Global Compact and re-conceptualize what they mean for their operations. During this process you discover that there is always something to be done.

That actually works, and many of our networks now offer activities and disclosure methodologies specifically designed for SMEs.

In terms of geography the delisting is very equally distributed: north, south, east and west.

QUESTION: Mr. Kell, you mentioned that there are conditions that need to be met for the Global Compact to achieve its goals, namely that markets remain open, the world remains peaceful, and environmental stewardship prevails. It seems that many of these conditions are not within the control of business. So if these conditions are not present, how can businesses still be successful?

GEORG KELL: I think you are partly right, but not totally, I hope. I am not a historian, but it is encouraging to look at the histories of those businesses that stood up and made the case against war, for example. That was the case during the First World War when German industry leaders tried to convince Kaiser Wilhelm not to go to war, though unsuccessfully. In the end, power and politics go their own way, but I think business can be an influence at least, and a positive one. Among our networks, China, Japan and Korea organize the China-Japan-Korea Roundtable. They meet every year to build common understanding around values and principles with a view to overcome some of the issues from the past that are lingering just under the surface and threaten to break out into the open at any time. This is an important contribution. This is one way in which business can contribute to building understanding and national consensus. Just last week, we had a big conference in Colombia on our new platform, Business for Peace. There, business demonstrated that by engaging former combatants, these individuals can contribute to business as potentially skilled and highly productive workers, and that this, in turn, can reduce their social stigma and help a country heal the wounds of the past.

We have wonderful stories from the Philippines where, with good workplace practices, businesses have brought together different ethnic groups in the workplace and created a corporate culture in which everyone feels a sense of belonging. Consequently, they overcome the hostilities that are found outside. I could go on and on with great examples from around the world of how business can be a very important force for good on these tricky issues. You are right in terms of the struggle that comes with opposing interests and other variables in play, but generally speaking, I believe that CEOs should be more outspoken on these fundamental issues. I sometimes tell them, “You are sleeping behind the wheel if you assume the future is going to be like the last 20 years.” If history tells us anything, it is that you always have the capacity to self-destruct. Therefore, you should take an active stand on the long-term issues, beginning with peace, then followed by all the other issues. In an era of globalization, you might hope and expect that business leaders would become more outspoken on these issues. It has not happened yet because businesses tend to be shy about speaking on these matters, and many CEOs are not familiar with them. They are often not trained in the bigger picture issues. Wherever we at the Global Compact can, we try to nurture this kind of understanding among business leaders. We bring CEOs to major international events and try to win them over.

Business certainly has a huge footprint; where it operates, it can make a huge difference on the ground, and that matters a lot to people and communities. At the macro-level, I hope business will become more of a public voice and public advocate for peace and cooperation.

QUESTION: Does the Global Compact have any initiatives to encourage businesses to partner with people at the “bottom of the pyramid” who make less than two dollars a day?

GEORG KELL: This comes up a lot and it is happening on a pretty large scale. It is happening largely through our local networks, which I should have explained a bit more. There are currently 101 Global Compact Local Networks up and running. They are self-sustaining, business-led organizations. They usually employ three to 10 full-time staff members to bring business and civil society organizations together. I would estimate that for at least 30 of our networks, bottom-of-the-pyramid activities are very high on their agendas. Globally, we try to shine a light on this and support it. At our Leaders Summit in September 2013, we launched a new online Business Partnership Hub, where issues such as social enterprise, water stewardship and anti-corruption, among others, are used as entry points for collaboration and scaling-up of activities.

This bottom-up growth happens largely through the local networks. It is very important. I know that most companies now have an eye on this, unlike 10 years ago when businesses went to another country selling the same product or services they sold in their home markets. Businesses now understand that they have to grow with the markets they enter. Becoming a stakeholder and market-builder helps to create a whole different mindset. One wants to thrive with bottom-up growth. A lot is also happening at the strategic level, where most major corporations have adopted their growth strategies according to income levels and other factors that matter there. It is a simultaneous process, but it is fundamentally important.

QUESTION: Where does the Global Compact stand on the position espoused by Nestlé’s CEO who advocates for the privatization of water? Does that go against the position of the Global Compact?

GEORG KELL: Five years ago we made water stewardship part of our environmental nexus collaborative activities through our initiative called the CEO Water Mandate. At that time there was no sense of what water stewardship meant. Now companies have defined what constitutes good and bad stewardship practices. They have also defined the meaning of “water usage disclosure.” More and more companies are now “footprinting” their water consumption, and more and more are actually moving into closed-loop systems where zero water use is the long-term sustainability goal.

The pricing of water is a very delicate issue. We commissioned many human rights working groups on this to try to find the right balance between corporate and community interests in water usage. It is a continuous struggle to find the right balance. The consensus now appears to be worldwide. In the face of absolute scarcity of a natural resource, you have to come up with some notion of valuation, and at the end of the day, you will need some pricing system. There is just no way around it. If water is not priced, one will be tempted to not manage it in a responsible manner — there would be no incentive to do so. However, how this matter of pricing is then set at the country-level depends on the smart policy approach that is pursued there, as is the case with all other scarce goods.

On that issue, I would like to make one final remark that I did not speak about earlier. Over the long term we will see the reevaluation of anything that Mother Nature produces. It is almost certain that natural resources will increasingly reshape evaluation. I mentioned air and water as examples of formerly “free” public goods that are being contested increasingly in one way or another. Imagine pricing the air, in terms of carbon emissions. Humanity has never embarked on anything like this.

The same applies to water, which is considered the ultimate public good. It should absolutely be available to everybody. However, how do you make sure that water is actually assured in countries where water is scarce, the groundwater is sinking and access to water increasingly equates to access to opportunities? There are many dilemmas where we have to search for the right answer. Often the right answer is based in a specific context, but it has to be guided by some fundamental ethical principles, such as equity, responsibility and related notions, and that is where ethics really comes into play. The search for striking the right balance is ongoing in many domains now. There is no simple answer. We have to search for the right answers, but clearly good water stewardship will require a total reevaluation of incentives including pricing and related issues. Otherwise, water access just cannot be assured, and many people will suffer enormously.



BENTLEY
UNIVERSITY

Center for Business Ethics
175 Forest Street
Waltham, Massachusetts 02452 USA

Tel: 781.891.2981

Fax: 781.891.2988

Email: cbeinfo@bentley.edu

On the Web: bentley.edu/cbe