



State of the Union between Business and Society in 2014

**Georg Kell
Executive Director
United Nations Global Compact**

Prepared for
**Oslo Business for Peace Summit and Award 2014
Oslo City Hall
15 May 2014**

Mayor,
Chairman Saxegaard,
Distinguished Honourees,
Ladies and gentlemen,

Good evening. It is a great honour to speak here today, and to be a part of this event hosted by the Business for Peace Foundation, whose mission I hold in such high regard.

Today, I have been posed the question of the “state of the union” between business and society. For many of us in the room, this topic holds our attention daily. Indeed, 15 years ago, it was the fragile nature of this union that led the UN Secretary-General to propose that business and the United Nations jointly initiate a “global compact of shared values and principles, to give a human face to the global market”.

At a Crossroads

Where do we stand now? I believe that *the state of the union between business and society is at a crossroads*.

- On the one hand, we have over a decade of progress showing us that business and investors around the world increasingly see the connection between the bottom-line and the health of societies. Corporate responsibility initiatives, standards and activities are booming at national and global levels. What began as a peripheral, ethical movement has evolved into a mainstream, strategic corporate practice.
- On the other hand, new examples of human rights violations, worker exploitation, environmental destruction and corruption by business are constantly revealed. A year after Rana Plaza, a watershed moment for supply chain governance, the pace of change on safety standards and funding improvements is not good enough. The fact is that until sustainable business practices are rewarded by markets and supported by Governments, companies devoid of responsibility will keep winning contracts, cutting corners and seeking profits at any cost.

So, what will the future look like? It is our choice whether we move towards a new era of sustainability or continue business as usual.

To get a better sense of the state of the union and the choices at hand, I suggest that we explore three questions:

- 1) First, can we envision a day when a critical mass of companies is acting responsibly – meaning that they are delivering value for the long-term not just financially, but also socially, environmentally and ethically?
- 2) Second, what are the biggest barriers to moving markets towards sustainability?
- 3) Third, what will it take to get there?

Can we envision a day when a critical mass of companies is acting responsibly?

To answer the first question - *Can we envision a day when a critical mass of companies is acting responsibly?*

YES. I can say with confidence that a global movement is underway, changing markets from within. In an interdependent and transparent world, it is increasingly true that long-term financial success goes hand-in-hand with social and environmental responsibility and sound ethics. The business case for sustainability has evolved significantly in the past 15 years.

There are 6 key developments that make me confident in the transformative potential of this movement:

- i) **Corporate sustainability has shifted from a moral imperative to a material one.** Environmental, social and economic challenges affect the bottom-line. Market disturbances, social unrest, ecological devastation: these have real impacts on the supply chain, capital flows, and employee productivity. Modern communications and technology make it harder for companies to hide in the shadows, defy laws and ignore public opinion. Today, business is called on to be transparent about their activities. Reporting expectations have evolved from a “feel-good” responsibility supplement to a strategic, integrated report showing measurable sustainability gains *and* losses. For business the smart choice is to proactively manage their operations and supply chains. As a result, sustainability is moving up the agenda – away from the public relations realm to a strategic one handled at the highest levels of the company.

And as traditional boundaries between public and private goods have become fuzzy in a globalized world, business is expected to do more in areas that used to be the exclusive domain of the public sector – ranging from health and education, to community investment and environmental stewardship. As planetary limitations put a premium on natural goods such as air, water and biodiversity, fundamental questions of valuation and accounting are gaining relevance. This will only intensify the strategic nature of the movement.

- ii) **Business is moving from resource taker, to market builder.** Understanding that business can no longer simply outsource responsibility and in-source economic benefits, corporate FDI has undergone a transformation. Not long ago, companies invested to source cheap inputs from the developing world. As economic growth has migrated East and South, companies are increasingly investing to build markets. More and more companies see themselves as stakeholders in these societies for the long run, knowing that they cannot thrive in societies that fail. Thus, issues like skilled labour, rule of law and resource scarcity are understood by business to be strategic for long-term success.

- iii) **A truly global movement is underway.** A vanguard of companies in all key markets is taking action. At the Global Compact launch in 2000, roughly 40 companies came together with a dozen labour and civil society leaders to commit to universal principles. Today, the Global Compact stands at 8,000 companies and 4,000 non-business signatories based in more than 140 countries. We have grown on average 20% per year. Our participants represent nearly every industry sector, size, and come equally from developed and developing countries. The idea and practice of responsible business has been rooted in all continents, from China to Chile, Mexico to India, Norway to South Africa. We have 100 country networks which are convening companies and acting on key issues at the ground level. The spread of this movement was unthinkable just 15 years ago when few companies in even progressive markets were considering their impact on environment and society.
- iv) **Guidance for business action is widely available.** Lack of knowledge is no longer an excuse for inaction. In just over a decade, we've gone from raising awareness, building consensus and developing first-time guidance; to creating a robust knowledge and resource base for action. Over 200 resources have been developed by the Global Compact and partners alone – recently on key topics like traceability in the supply chain, responsible engagement on climate policy, and anti-corruption risk assessment.
- v) **Companies are collaborating to tackle major societal issues.** Issue platforms and initiatives – for example, on gender, peace, climate, water, food and children's rights – are the key to breaking through complex issues. Companies are coming together to collaborate and co-invest in solutions to shared, systemic challenges. Our Caring for Climate initiative and Women's Empowerment Principles are the largest business-led platforms in their respective areas – bringing over 1,000 companies to the table.

Of special note is our Business for Peace platform which assists companies in implementing responsible business practices in conflict-affected and high-risk areas – already introduced in Colombia, India, Indonesia and Turkey since launching last September. Future launches are planned in the UK, Nigeria, Sudan, Sri Lanka, Pakistan, Mexico and South Korea.

- vi) **Investors and educators are becoming key leverage points.** Mainstream investors are getting on board and driving companies to act – thanks to the work of groups such as the Principles for Responsible Investment – with 1,200 investors managing assets of roughly \$34 trillion – and the Sustainable Stock Exchanges initiative – now counting the New York Stock exchange and major others among its participants. These players are increasingly looking at the materiality of sustainability and valuing environmental, social and governance factors. Indeed, the Global Compact is proud to have had a hand in kicking off this responsible investment movement and coining the “ESG” terminology so frequently used in the field.

Changing mindsets of our future leaders is also essential to drive change. The Principles for Responsible Management Education initiative is helping to shape future businessmen and businesswomen – with over 500 academic institutions in 80 countries committed to embed sustainability into business school curricula and research.

Ladies and gentlemen,

There is no doubt that the pieces are in place. The opportunity to orient business towards sustainability has never been greater.

Already the lives of millions of people in the workplace and communities have been improved by business actions to change how they behave – not just so that they do no harm, but also to take proactive steps that move beyond compliance. In our experience, there is a positive trajectory once companies are tuned in to the agenda. The longer a company is engaged in the Compact and attuned to sustainability, the more they take critical steps to change their operations and partner with others.

But the truth is that, relative to the challenges at hand, the corporate sustainability movement has resulted only in incremental changes. Too many companies are doing nothing, or making problems worse. With an estimated 80,000 multinationals and millions of smaller enterprises, much remains to be done to reach critical mass. What is keeping us from getting there?

So the second key question to consider:

What are the biggest barriers to moving markets towards sustainability?

It is clear that our world is at a critical juncture. We know that business has a leading role to play in mobilizing the resources, technology and innovation required for sustainability globally. So, why aren't more companies embracing a shift to sustainability? In short, the enabling environments and economic incentive structures are lacking. There are three fundamental factors hindering a transformation in markets:

- i) First, Government defines the space within which business exists and evolves. With 1.5 billion people living under violence, 70 countries steeped in systemic corruption and 60 million children lacking basic education, it is clear why markets cannot grow in so many places. Much has to be done. Progress will require Governments everywhere to: respect, protect and fulfil human rights and fundamental freedoms of individuals; establish peaceful and stable conditions; and root out corruption. Ultimately, responsible business practices can only accomplish so much as a stop-gap for the shortfalls in global and local governance.
- ii) Next, best practices and technological breakthroughs can only travel widely and bring benefits where they are most needed if global rules supporting trade and investment remain open and non-discriminatory. The erosion of multilateral cooperation and trade poses significant challenges. And the rise of narrowly defined national interests is a worrisome trend. What is needed is a renewed commitment to the founding vision of the United Nations: that durable peace and prosperity can only be built on the foundations of interdependence and cooperation.
- iii) Finally, our systems are not set up for the long-term. Crisis management and short-termism characterize much of our world today. Politicians are focused on delivering within election cycles. Markets remain obsessed with short-term returns. And at the individual level, billions of people still are just trying to survive on a day-to-day basis. It is no surprise that we are in paralysis when it comes to collectively solving problems that exist beyond our borders. Slow progress on global climate and trade agreements and lack of reform in the financial markets provide frustrating evidence. In a world driven by urgency and short-term profit maximization, efforts towards long-term sustainability are an uphill battle.

The challenges I've listed are clearly linked to much more than the business environment. They are about the future of our planet and our livelihoods – the tomorrow that we will leave our children and their children. Can we overcome differences and find solutions to crises that cross our borders, politics and religions? Can we put our world on the right track?

I say YES, a better future is within grasp. This crisis in leadership for the long-term is a serious one, but it can be overcome. History shows the power of individual actions to bring about changes once thought insurmountable. One person stands up against what is wrong, then others join the fight for what is right. Eventually enough voices force walls to fall, doors to open, lights to shine.

Decisions by business leaders – such as those being honoured here today – to pursue sustainability can make all of the difference. The good news is that enlightened companies – which comprise major portions of the global marketplace – have shown that they are willing to be part of the solution and are moving ahead regardless. What is clear is that they will only get so far unless actions are taken by a range of actors.

What will it take to get there?

Markets must undergo a transformation so that sustainability drives innovation, investment and trade. There must be clear signals that good environmental, social and governance performance by business is supported and profitable. Simultaneous actions by key players can result in unprecedented changes in markets everywhere:

- i) Beyond **Governments'** fundamental duties and responsibilities to citizens, they must take measures to accelerate business solutions on sustainability. This means creating enabling environments, incentivizing the right kind of behaviour, and encouraging companies to enhance accountability through disclosing their practices. Norway has been leading the way in this regard, and the recent EU directive on reporting could shift the dynamic significantly.

Critical steps by Governments will also include:

- Advancing policies and mechanisms intended to create a stable price for carbon, as well as phasing out perverse subsidies;
- Ensuring that state-owned enterprises lead by example;
- Making all public procurement truly public and transparent; and
- Applying responsible investment principles to sovereign wealth funds and other pools of public funds.

- ii) **Companies** everywhere are called on to do more of what is sustainable and put an end to what is not. We need corporate sustainability to be in the DNA of business culture and operations. The priority is to reach those who have yet to act, and especially those actively opposing change. Leaders can spur a race to the top, encouraging companies that are sitting on the fence and provoking the competitive spirit of peers.

Beyond growing the movement, there are at least 3 urgent areas for business action:

- **Deepen practices and reach.** More companies need to take a sophisticated and comprehensive approach to integrating sustainability issues – starting from the Board of Directors, through the organization and subsidiaries, and out into the supply chain.

- **Collaborate.** Companies will need to push beyond first-mover approaches and embrace partnerships and collective action initiatives that unite peers and other stakeholders. Co-investing will allow companies to share the risks in navigating systemic challenges that no single company can overcome, such as corruption or water scarcity.
- **Lobby responsibly.** Businesses must align their public policy engagement with sustainability principles. Too many companies are individually or through trade associations taking lobbying actions that are in direct conflict with their stated values. They are doing so in ways that are not transparent and take a lowest-common-denominator approach. Too many trade associations are built on ideologies of the past. The time has come for these powerful organizations to embrace the future, moving from a defensive stance to one defined by proactive, pragmatic leadership.

We also need companies to urge their Governments to enact policies that support sustainable business. If businesses advocate for key goals, there is huge potential for transformative impact. For example on carbon pricing, a call by business for an effective, well-functioning carbon market and to put a true value on the cost of carbon would provide powerful momentum. As well, on the issue of more competitive and transparent public procurement, business has the power – and I believe the responsibility – to encourage policy-makers to move rapidly in this direction.

- iii) **Financial markets** must move beyond the short-term, where long-term returns become the overarching criteria for investment decisions. Frustratingly, the lessons from the 2008 financial crisis have not been grasped. For example, asset owners who have a fiduciary role as caretakers over generations are still outsourcing this responsibility to asset managers who are driven by the race of short-term profit maximization. Overall, financial markets lag behind business by at least five years.

What we need is comprehensive risk management, sustainable value creation and stronger ethical orientation in our globalized marketplace. The Principles for Responsible Investment and the Sustainable Stock Exchanges Initiative must pick up the pace of their important work. And it will also be critical for companies to better value and communicate their sustainability related efforts and investments to the investor community. Most fundamentally, the net present value system would need an overhaul to better account for ESG issues that happen in the future due to today's investment decisions.

- iv) Finally, as individuals we all have a responsibility to look into the future. As **citizens and consumers**, we need to take a hard look at how we live and how our choices impact the world today and tomorrow. Achieving a greener planet and a more prosperous future for our growing global population will not happen without a re-evaluating our values and motivations.

In conclusion

I return to the original question on the state of the union between business and society. The crossroads I've laid out perhaps is best expressed by the views of 1,000 Global Compact CEOs surveyed last year. The vast majority – 93% of the CEOs – stated that sustainability is important to the future success of their business. Many believe it will transform their industry in the next five years (63%). *However*, the CEOs also indicated frustration with the pace of change – with only one-third stating that business as a whole is making sufficient efforts on sustainability challenges.

Perhaps most promising for the future of the business-society union is that five out of six (84%) CEOs believe that business should play a leading role in addressing global priority issues.

Hopefully, business will have an enormous opportunity to “make good” on this commitment to society, as Governments and the United Nations work to define a set of global sustainable development goals by 2015. This post-2015 agenda has the power to spur action by all key actors, with the private sector having a huge role. These goals and targets could result in a framework for businesses to measure their own sustainability progress and help them establish corporate goals aligned with global priorities.

In closing, I am confident that the private sector is prepared to deliver on the compact between business and society. We *can* move from incremental to transformative impact. It will take our collective determination to bring this movement to scale and requires collaboration on a level never before seen. As a growing number of companies are embracing sustainability, we need Governments, investors and educators to do their part. Governments specifically are called on to recommit to the founding spirit of the United Nations, ensuring that peace and openness prevail.

There is certainly much work to be done. Together, let us charge ahead on our journey towards a sustainable and inclusive global economy.

Thank you.